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KORN/FERRY INTERNATIONAL

Board of Directors

Tenth Annual Study

February 1983

A Publication of Korn/Ferry International

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BOARD OF DIRECTORS ANNUAL STUDY

For the 10th consecutive year, Korn/Ferry International surveyed 1,000 of the largest U.S. corporations in an effort to better understand some of the major trends and changes affecting corporate governance.

When we compiled our first study in 1973, board responsibility was not taken all that seriously – by management or directors. The board, just 10 years ago, was regarded as little more than "window dressing." During the past decade, however, dramatic changes in board composition, policy and responsibilities – stimulated by both internal and external forces – have profoundly altered corporate governance. Evidence of this change can be found in the comparative data documented in this, our Tenth Annual Board Survey.

We also note, from our own experience in recruiting directors, that boards of directors and chief executive officers are increasingly aware of the benefits of more aggressively pursuing qualified, independent, topflight directors.

Certainly, this attitudinal change reflects pressure from the SEC and other groups to make board members more accountable to the corporation's constituencies. We also strongly believe that the corporate "spotlight" will intensify. The board represents a tactical weapon that has yet to be fully utilized.

The large body of statistical data that Korn/Ferry has assembled over the years clearly points to the conclusion that boards have been totally restructured during the past decade. The data this year suggests that the era of structural change is over.

In our opinion, trends in the next decade will show a swing to increased board power and influence.

We foresee *10 Emerging Trends* unfolding for the remainder of this decade. These trends seem to indicate management's understanding that the board will participate more fully in the determination of and accountability for corporate strategy, policies and practices.

TREND #1 – The responsibility of the board in determining corporate strategy will grow. The day of the "rubber stamp" board is over.

TREND #2—Board member compensation will continue to increase commensurate with involvement and contribution. For example, our 1973 survey revealed that 62 percent of directors were paid annual fees of $1,000-$7,000. This 1982 study reports that 67 percent of companies pay their directors annual fees ranging from $12,000-$20,000+. Some of the larger industrials surveyed reported paying outside directors fees as high as $50,000. The question we ask is not how high fees will rise but what should be expected of board members?

TREND #3—Senior executives from outside companies, with strong operating experience, will be the most sought after directors in the 80's. They bring with them fresh ideas, independence and sound judgments that are "battle-tested."

According to our most recent study, outside executives with operating experience were on the boards of 88 percent of the companies surveyed and on 95 percent of industrial companies exceeding $5 billion in revenues.

TREND #4—Outside board members that render professional services to the company (e.g. legal, investment or commercial banking) are on the decline.

Over the past 10 years, board representation by attorneys who provide legal services to the company dropped from 52 percent to 28 percent, commercial bankers declined from 55 percent to 34 percent and investment bankers were reduced from 37 percent to 24 percent.

Interestingly, and predictably, the declines were far greater in larger companies than in smaller ones.

TREND #5—The addition of women and ethnic minority directors has peaked. While the 10-year trend was up dramatically, we have observed that the trend is flattening. Boards will now seek directors with "operating experience" as the primary requirement.

TREND #6—Former high ranking government officials, particularly those with sound business experience, will be prime targets for board vacancies. Our latest study showed that 61 percent of the $5+ billion industrial companies have former government officials on their board. This trend should intensify as competition for government contracts and lobbying efforts by multi-billion dollar corporations mount.

TREND #7—An "age gap" will arise on boards as the many current directors near retirement. Company boards will be wise to stockpile "rising executive stars" in anticipation of this age gap. These younger board members will be groomed to understand the inner workings of a corporation and be expected to make a major contribution as well as a long-term commitment to the company and its shareholders.

TREND #8—Ineffective board members will resign as standards of performance increase. This will be accomplished through the establishment of tougher performance standards developed by board nominating committees.

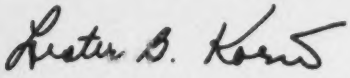
TREND #9—In order to most effectively carry out their expanded powers, boards will form their own management and administrative groups to support the directors. The board, like management, will be expected to establish short and long range goals and objectives and will be accountable for meeting them. Greater use of outside professional advisors, reporting directly to the board and supporting their activities, will take place in the next 10 years.

TREND #10—Renewed legal and fiduciary responsibility as well as increased duties and time commitment will greatly reduce the population of potential qualified directors—leading to an intensely competitive environment of director recruitment. Outside directors will find increased demands on their time limiting the number of boards on which they serve.

All of these trends emphasize that the director will become more of an activist in the years ahead as pressure mounts for corporations to improve performance—whether it be financially related or community oriented.

In short, we may well be embarking on another major chapter in the history of corporate governance in American business. The structural changes documented in this report are now leading to a period of board activism.

On behalf of all of us involved in this year's survey, we wish to thank the companies that took the time to participate.



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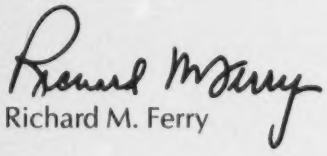

Richard M. Ferry

February, 1983

SUMMARY OF FINDINGS

On a question-by-question basis, the following are key findings of the Korn/Ferry International Tenth Annual Board of Directors Study.

1. Size of Board (Table 1)

For the ten years we have conducted this study, the average size of corporate boards has remained constant at 13.

Our study has consistently shown the direct correlation between company size and the number of board members. Among the industrials, the smaller companies (sales under $200 million) average nine directors. This progressively increases to an average of 15 directors for industrials with sales of $5 billion or more. Banks and other financial institutions once again have the largest boards, averaging 19, followed by insurance companies, averaging 16.

2. Inside Directors vs. Outside Directors (Tables 1 and 2)

Again this year, as in the past five years, the responding companies average four inside directors and nine outside directors. (Table 1)

Eighty percent of this year's respondents stated a preference for a majority of the board to be outside directors – up from 76 percent last year. And more than a third prefer three-quarters of their boards be outside directors. (Table 2) At 88 percent, banks and other financial institutions expressed the strongest preference for a majority of outside members.

3. Board Composition (Table 3)

Over the past ten years, there have been fundamental changes in the composition of corporate boards. Major gains in board seats were scored by:

- Women – From 11% in 1973 to 41% this year.
- Ethnic minorities – From 9% to 23%.
- Former government officials – From 14% to 27%.
- Academicians – From 35% to 50%.

Decreasing greatly in representation were:

- Attorneys who provide legal services to the company – From 52% in 1973 to 28% this year.
- Commercial bankers – From 55% to 34%.
- Investment bankers – From 37% to 24%.
- Major shareholders who are not officers of the company – From 43% to 30%.
- Retired or previously employed corporate officers – From 56% to 47%.

This changing pattern of representation continues to illuminate the most striking trend in corporate governance over the past 10 years – the trend toward seeking independent outside directors. The top three sources of outside directors continue to be senior executives of other companies (88%), retired executives of other companies (66%) and academicians (50%). (Table 3A) This indication that companies are most interested in outside directors with considerable business experience has been substantiated this year by a new question. When asked to name the primary consideration in asking a prospective director to sit on the board, 76 percent cited corporate experience. This holds true for academicians and former government officials as well. Among academicians, many are university presidents or deans with considerable management experience; while most former government officials directed large departments or agencies.

Women and ethnic minorities have made the most dramatic increases. Women now sit on more than 40 percent of this year's responding boards. Again, most are from categories with substantial business experience: academicians (23%), senior executives of other companies (22%), and former government officials (12%). The same is true of ethnic minorities, now on more than 20 percent of the boards of the companies surveyed. They are predominantly senior executives of other companies (33%), academicians (20%) or former government officials (11%). (Table 3B)

Former government officials continue to be a popular source for outside directors, especially among the large industrials. Although they are on only 10 percent of the boards of industrials under $200 million, they sit on more than 60 percent of the boards of industrials $5 billion and over.

4. Is the Chairman also the CEO? Is the CEO also the COO? (Table 4)

Seventy-nine percent of this year's respondents report that their chairman is also their chief executive officer – up from 74 percent last year. The larger the company, the more likely this will be true. Only 65 percent of the industrials with revenues under $200 million report this relationship compared to 84 percent of the billion dollar industrials.

Forty percent of the respondents, primarily the smaller industrials, state that their chief executive officer is also their chief operating officer.

5. Committees (Table 5)

One of the most noteworthy changes over the past 10 years is the rise to almost universal use of the audit committee. Ten years ago 72 percent of the respondents reported one – today, fully 98 percent have one. The nominating committee experienced the greatest percentage increase over the past 10 years. Only two percent of the respondents to our first survey reported having one.

This year, 57 percent of all respondents and more than 70 percent of the billion dollar industrials have a nominating committee. Of those that do have this committee, 58 percent report that it participates in board committee appointments. And along with the compensation and executive committees, it is used significantly in the management succession process.

The use of committees has escalated over the past 10 years, but the most prevalent standing committees continue to be the audit, the compensation and the executive. (Table 5A)

Committee composition has not changed over the past year, averaging between four and six directors. The audit and compensation committees continue to be composed entirely of outside directors and the executive committee – with three – has the most inside directors. (Table 5B) Committee appointments are reviewed annually by 89 percent of the respondents.

Committees meet on the average between two and four times during the year. (Table 5C) Respondents, when asked if they believed the amount of time directors devote to committees is increasing, decreasing or remaining the same, less than two percent stated that they thought it was decreasing (47% said it was increasing and 51% said it was remaining the same).

6. Compensation (Table 6)

As they have been for the past ten years, directors are predominantly paid on an annual plus per meeting fee basis. Moreover, the percentage of companies that compensate their outside directors in this manner has greatly increased– from 57 percent in 1973 to 85 percent this year. This number is even higher among insurance companies (93%) and billion dollar industrials (90%).

Twelve percent of the respondents compensate their outside directors on an annual fee only basis, down considerably from the 25 percent of ten years ago. Smaller companies are most likely to use this method of payment. This year, 33 percent of the industrials with revenues under $200 million compensate their directors in this manner. Also declining in popularity is the per meeting fee only method of compensation from 14 percent 10 years ago to less than three percent this year. (Table 6A)

– Annual and Per Meeting Fee (85% of the respondents)

  Outpacing inflation, fees for the outside directors compensated in this manner went up eight percent this year. They now average $16,990 compared to $15,660 last year. Over the past ten years, fees have more than doubled from the average $7,110 in 1973 or have risen approximately 13 percent per year.

Looking at the components of this method of compensation, the outside directors earned an average annual fee of $11,000. This is up 11 percent from the average annual fee of $9,900 earned last year. The average per meeting fee has, however, declined slightly from $680 reported last year to $657 this year. (Table 6B)

As would be expected, the larger the company the greater the total average compensation. For the smaller companies (under $200 million), the average is $8,720– and none pays more than $17,000. The billion dollar industrials, on the other hand, compensate their outside directors an average $22,040 per year with nearly 80 percent paying $17,000 or more. Among the largest of these ($5 billion and up), 41 percent pay more than $25,000. (Table 6C)

We have once again included, for comparative purposes, the "upper quartile average" for each category in the annual and per meeting fee table. The upper quartile average for all respondents is $26,500, seven percent more than last year's figure of $24,790. (Table 6C)

– Annual Fee only (12% of the respondents)

Among the companies that pay their outside directors an annual fee only, the average amount is $16,100. This is up 18 percent from last year's average of $13,600 and up 39 percent from the average of $11,600 five years ago. Smaller companies are more likely to use this method of compensation. In this year's survey, one-third of the industrials under $200 million reported compensating their outside directors in this manner. Of the respondents in this category, 29 percent pay $20,000 or more per year – compared to 21 percent last year. Ten years ago, only six percent paid over $12,000. (Table 6D)

– Per Meeting Fee Only (3% of the respondents)

Only 15 of this year's respondents use this method of compensation, generally the smaller banks and industrials. The average per meeting fee reported is $460. Ten years ago, 62 percent of the respondents in this category averaged under $250 per meeting; this year, only 27 percent averaged under that amount.

7. Committee Compensation (Table 7)

Eighty-nine percent of this year's respondents compensate their outside directors additionally for committee service – up from 66 percent 10 years ago. (Table 7A) Among these, the predominant means of payment is on a per meeting fee only basis. This year, 72 percent of the respondents who pay for committee service use this method – up from 63 percent last year. Twenty-one percent pay both an annual and a per meeting fee and seven percent, an annual fee only. (Table 7B)

Of the 72 percent that use the per meeting fee basis of payment, fees range this year from a low of $480 per meeting for the benefits committee up to $860 per meeting for the finance committee with an overall average of $570 for the chairman and $550 for committee members. The respondents that pay an annual plus per meeting fee for committee service (21%) average a per meeting fee of $590 and an annual fee of $3,310 for a total average compensation of $4,720 for committee chairmen. Committee members in this group average a per meeting fee of $660 and an annual fee of $2,720 for a total average compensation of $3,470. Of the seven percent that pay an annual fee only, that fee averages $6,470 per year for chairmen and $4,380 per year for members serving on a committee.

Committee fees are annually reviewed by 72 percent of this year's respondents.

8. Additional Compensation Information (Table 8)

Only 39 percent of the responding corporations raised fees for their outside directors during the past year, down significantly from the 52 percent who did so in last year's study. Furthermore, the average amount of the increase is down slightly – from a $3,520 raise in fees last year to $3,170 this year. (Table 8A)

Twenty-six percent of this year's respondents contemplate raising board fees an average of $2,210 during the coming year. These numbers are down somewhat from last year's responses also. Last year, 29 percent indicated a projected increase averaging $2,870. (Table 8B)

Board members are compensated even though they do not attend board meetings by 84 percent of the respondents, but that fee is almost always limited to the annual fee only. Eighty-six percent of this year's participants believe that outside directors are adequately compensated for their board services.

In 1982, the highest paid outside director earned an average of $21,720 for all board services exclusive of consulting arrangements. This represents a five percent increase over the 1981 average of $20,600. The upper quartile average, included for comparative purposes, is $36,550, up from $34,380 last year. (Table 8C) Additionally, 25 percent of this year's respondents have outside directors who receive special consulting fees.

Thirty-six percent of the participants in this year's study state that their board chairman has the primary responsibility for establishing board compensation. The compensation committee has this responsibility at 18 percent of the respondents and the entire board handles it at 22 percent. (Table 8D) Ninety-four percent of the respondents report having a procedure whereby the board annually reviews and establishes appropriate compensation levels for the chief executive officer. Ninety-one percent of the respondents report the same procedure for other senior officers.

Deferral of board fees is becoming an increasingly popular option for board members. This year, 55 percent of the respondents have a plan that allows compensation deferral – up 25 percent from last year. Another five percent report that they are contemplating the establishment of such a plan. There is a direct correlation between company size and the existence of an income deferral option. Only 28 percent of the smaller industrials (under $200 million) have one while 70 percent of the largest ($5 billion and up) report such a plan. Other benefits that are commonly included in compensation plans for outside directors include directors liability insurance (cited by 86% of the respondents), travel expense reimbursement (also cited by 86%), accident insurance (cited by 43%) and matching educational gifts programs (cited by 40%). Twenty-four percent of the respondents reimburse travel expenses for directors' spouses and 46 percent state that spouses are asked to attend special board functions. (Table 8E)

Fourteen percent of this year's participants have retirement plans for their outside directors – up from 12 percent last year. Again, these plans vary widely but are generally based on a formula that takes into consideration length of board service and fees in effect at the time of retirement.

9. Board Practices and Policies (Table 9)

For the sixth consecutive year, the respondents to this year's survey hold an average of eight meetings per year. Banks and financial institutions and the larger industrials ($3 billion and up) meet most frequently, an average of nine meetings per year. (Table 9A) Fifty-two percent of all participants hold at least one regular board meeting away from corporate headquarters or a major facility city during the year and 10 percent hold at least one of these meetings outside the United States.

An outside director of this year's respondents spends 123 hours per year on board related business, the same as last year. Once again there is a direct correlation between company size and time devoted to board matters. Directors of the largest industrials ($5 billion and up) spend more than double the amount of time than directors of the smaller industrials (under $200 million) on board business. (Table 9B) This year, directors averaged 48 hours on board and committee meetings, 34 hours on review and preparation time and 41 hours travelling.

Outside directors earned $138 per hour if paid on an annual plus per meeting fee basis. This is up nine percent from last year's hourly rate of $127.

Ninety-two percent of the respondents permit their key executives to serve on outside public boards, but 11 percent limit the number of executives that are permitted to do so. Ninety-five percent permit their chief executive officer to sit on outside boards.

Fifty-seven percent of the respondents require all their directors to sign the 10K Form instead of the simple majority required by the Securities and Exchange

Commission. This is up from 51 percent last year.

A mandatory retirement age is reported by 80 percent of this year's respondents. Here, too, there is a correlation with company size. Only 50 percent of the smaller companies (under $200 million) have mandatory retirement. This increases to 89 percent for the billion dollar industrials. Of the companies that do have a mandatory retirement policy, the average retirement age for their outside directors continues to be 70 – unchanged over the past seven years. The average retirement age for inside directors is 67 this year – down from 68 last year.

10. Locating Outside Directors (Table 10)

Thirty-six percent of this year's respondents had outside directors resign from their boards during the past year. At 51 percent, banks and financial institutions had the highest percentage of outside director resignations. While most of the respondents who had directors resign cited retirement as the major reason (63%), other frequently named factors include potential conflict of interest (15%) and time demands (12%).

Fifty percent of the respondents added one or more new outside directors to their boards this past year and 21 percent added new inside directors. (Table 10A)

To fill board vacancies, the respondents continue to rely predominantly on the traditional and informal methods of recommendation by the chairman (78%) and recommendation by other board members (76%). Use of the nominating committee continues to be an important method of selecting and identifying new outside directors. This year, 52 percent of the participants report its use compared to 37 percent five years ago. Recommendation by other corporate officers continues to decline – from 48 percent five years ago to 38 percent this year. Use of executive search firms increased this year – cited by nine percent compared to six percent last year as well as six percent five years ago. And among the billion dollar industrials, use of executive search is even more prevalent, rising to 13 percent. (Table 10B)

The participants in this year's study overwhelmingly named corporate experience as a primary consideration in asking a prospective director to sit on their boards (cited by 76%). Other major considerations include functional experience (45%), specific related experience (44%) and prestige (11%). (Table 10C) The respondents also expressed a clear preference for fully employed executives as board members.

Eighteen percent of the responding companies noted that prospective directors declined invitations to serve on their boards. Time commitment is the predominant reason given for declining (70%) with serving on too many boards (31%) and conflict of interest (22%) also of significance. (Table 10D)

Forty percent of the respondents expect a board vacancy this year.

11. Board Issues (Table 11)

Not surprising, financial results is the most important issue facing the boards of this year's respondents. When asked to rank various issues, 55 percent ranked financial results first, 82 percent ranked it first or second and 94 percent ranked it among the top three most important issues. Strategic planning is second, rated among the top three issues by 75 percent of the respondents, followed by day-to-day operations (47%), managerial succession (37%) and mergers and acquisitions (28%). (Table 11) When asked to project the rank of these same issues five years from now, the only significant differences are in the decreasing importance of day-to-day operations and the increasing importance of managerial succession.

When asked to estimate the percentage of time spent at board meetings on these same issues, financial results again was first. The respondents estimate that 32 percent of their board meetings are devoted to financial results, 23 percent to day-to-day operations and 11 percent to mergers and acquisitions. The time estimate for all other issues is under 10 percent.

12. Participating Companies

– Size of Participating Companies (Table 12)
– Stock Exchange of Participating Companies (Table 13)
– Type of Participating Companies (Table 14)

TABLE 1 – PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Type and Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Industrials			
Under $200 million	3	6	9
$200 million-$399 million	3	7	10
$400 million-$599 million	3	8	11
$600 million-$999 million	4	8	12
$1 billion-$2.999 billion	4	9	13
$3 billion-$4.999 billion	4	10	14
$5 billion and over	5	10	15
Banks & Financial Institutions	4	15	19
Insurance Companies	4	12	16
Retailers	5	8	13
1982 Average	4	9	13
1973 Average	5	8	13

TABLE 2 – OUTSIDE DIRECTORS ON THE BOARD

What is the minimum percentage of outside directors preferred?

Minimum %	% 1981	% 1982
25% and under	5.0%	5.6%
26%-50%	13.2%	10.3%
51%-75%	47.7%	45.5%
76% and over	28.7%	34.0%
No Response	5.4%	4.6%
TOTAL	100.0%	100.0%
	(606)	(611)

TABLE 3—BOARD COMPOSITION

3A. Are one or more of the following individuals on the board?

	% 1973	% 1981	% 1982
Senior Executive (other companies)	85.3%	87.5%	88.2%
Retired or Previously Employed Corporate Officer	55.7%	49.2%	46.8%
Commercial Banker	55.4%	38.1%	33.6%
Attorney (provides legal services to the company)	51.7%	29.7%	28.2%
Academician	34.9%	50.3%	50.4%
Investment Banker	37.3%	27.4%	23.7%
Major Shareholder (not officer of the company)	43.1%	32.3%	30.4%
Attorney (does not provide legal services to the company)	N/A	32.2%	33.7%
Former Government Official	14.4%	26.7%	27.2%
Female	10.7%	38.9%	41.2%
Ethnic Minority Member	8.9%	17.5%	23.2%
Non-U.S. Citizen	N/A	15.0%	17.0%
International Executive (American)	N/A	8.9%	7.5%
"Professional" Director	N/A	14.2%	19.5%
Retired Executive (other companies)	N/A	65.0%	66.3%

TEN YEAR TREND

3B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	22.6%	19.9%
Sr. Executives (other company)	22.2%	32.6%
Former Government Officials	11.9%	11.3%
Attorneys (do not provide legal services)	10.3%	22.7%

TABLE 4—CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	% CEO	% COO
Yes	78.7%	39.7%
No	20.0%	58.3%
No Response	1.3%	2.0%
TOTAL	100.0%	100.0%
	(611)	(611)

TABLE 5–COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	% 1973	% 1982
Audit	71.9%	98.2%
Compensation	76.1%	86.3%
Executive	81.3%	78.4%
Finance	35.2%	35.7%
Public Affairs	6.1%	11.8%
Nominating	2.4%	56.6%
Corporate Ethics	N/A	8.0%
Benefits	N/A	32.9%

TEN YEAR TREND

5B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	4	4
Compensation	0	4	4
Executive	3	3	6
Finance	2	4	6
Public Affairs	1	4	5
Nominating	1	4	5
Corporate Ethics	1	4	5
Benefits	1	3	4

5C. How many committee meetings were held during the past twelve months?

Committee	1981 Average Number Of Meetings	1982 Average Number Of Meetings
Audit	3	3
Compensation	4	4
Executive	5	4
Finance	5	4
Public Affairs	3	3
Nominating	2	2
Corporate Ethics	3	2
Benefits	3	3

TABLE 6–COMPENSATION

6A. How are board members compensated?

Compensation	% 1973	% 1981	% 1982
Both Annual and Per Meeting Fee (see Table 6B and Table 6C for amounts)	57.2%	83.0%	84.8%
Annual Fee Only (see Table 6D for amount)	25.1%	13.9%	11.8%
Per Meeting Fee Only	14.4%	2.8%	2.5%
No Response	3.3%	0.3%	0.9%
TOTAL	100.0%	100.0%	100.0%
	(327)	(606)	(611)

TEN YEAR TREND

6B. Annual and Per Meeting Fee (84.8%)

Annual Fee Amount	% 1973	% 1981	% 1982
Under $1,000	2.7%	—	—
$1,000-$2,999	—	3.8%	3.1%
$3,000-$4,999	80.3%	6.2%	4.6%
$5,000-$6,999	—	17.5%	14.1%
$7,000-$10,999	—	31.6%	28.8%
$11,000-$13,999	17.0%	18.3%	18.9%
$14,000 and over	—	22.6%	29.5%
Unspecified	—	—	1.0%
TOTAL	100.0%	100.0%	100.0%
	(187)	(503)	(518)

TEN YEAR TREND

Average Annual Fee	N/A	$9,900	$11,000

PLUS

Amount Per Meeting	% 1973	% 1981	% 1982
Under $100	1.6%	0.2%	0.2%
$100-$249	58.4%	2.6%	1.7%
$250-$449	—	19.5%	15.1%
$450-$599	39.0%	36.6%	33.4%
$600 and over	—	41.1%	48.5%
Unspecified	1.0%	—	1.1%
TOTAL	100.0%	100.0%	100.0%
	(187)	(503	(518)

TEN YEAR TREND

Average Per Meeting Fee	N/A	$680	$657

COMPENSATION (continued)

EQUALS

Total Average Annual Compensation	% 1973	% 1981	% 1982
Under $5,000	21.8%	3.4%	1.8%
$5,000-$6,999	23.8%	3.6%	3.7%
$7,000-$10,999	24.8%	19.9%	15.7%
$11,000-$13,999		18.7%	16.3%
$14,000-$16,999		15.7%	16.9%
$17,000-$19,999	16.2%	13.3%	14.5%
$20,000-$24,999		18.3%	20.0%
$25,000 and over		7.1%	11.1%
Unspecified	13.4%	—	—
TOTAL	100.0%	100.0%	100.0%
	(187)	(503)	(518)
Average	$7,110	$15,660	$16,990

TEN YEAR TREND

6C. Annual and Per Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Industrials		
Under $200 million	$ 8,720	$13,000
$200 million-$399 million	$11,900	$16,800
$400 million-$599 million	$14,580	$24,800
$600 million-$999 million	$15,430	$22,300
$1 billion-$2.999 billion	$18,300	$25,300
$3 billion-$4.999 billion	$26,760	$30,620
$5 billion and over	$24,960	$34,610
Banks & Financial Institutions	$15,310	$24,650
Insurance Companies	$13,950	$22,920
Retailers	$16,950	$25,410
Average	$16,990	$26,500

6D. Annual Fee Only (11.8%)

Annual Fee Amount	% 1973	% 1982
Under $4,000	62.2%	—
$4,000-$6,999		12.5%
$7,000-$9,999	31.7%	12.5%
$10,000-$11,999		8.3%
$12,000-$13,999		18.1%
$14,000-$15,999	6.1%	11.1%
$16,000 and over		37.5%
TOTAL	100.0%	100.0%
	(82)	(72)
Average	$5,940	$16,100

TEN YEAR TREND

TABLE 7–COMMITTEE COMPENSATION

7A. Are outside directors paid an extra fee for serving on a committee?

	% 1973	% 1982
Yes	66.0%	88.7%
No	30.0%	9.0%
No Response	4.0%	2.3%
TOTAL	100.0%	100.0%
	(327)	(611)

TEN YEAR TREND

7B. If yes, how are they compensated?

Compensation	%
Per Meeting Fee Only	72.0%
Both Annual and Per Meeting Fee	21.4%
Annual Fee Only	6.6%
	100.0%
	(542)

TABLE 8–ADDITIONAL COMPENSATION INFORMATION

8A. Has board compensation been raised within the last twelve months?

	% 1981	% 1982
Yes	52.1%	38.5%
No	46.4%	60.7%
No Response	1.5%	0.8%
TOTAL	100.0%	100.0%
	(606)	(611)

If yes, by how much? (38.5%)

Type and Size of Company	1981 Increase	1982 Increase
Industrials		
Under $200 million	$3,130	$1,760
$200 million-$399 million	$2,390	$2,030
$400 million-$599 million	$2,520	$2,260
$600 million-$999 million	$2,690	$2,580
$1 billion-$2.999 billion	$3,240	$3,110
$3 billion-$4.999 billion	$6,920	$2,860
$5 billion and over	$5,030	$5,820
Banks & Financial Institutions	$2,830	$4,410
Insurance Companies	$4,170	$2,750
Retailers	$2,770	$2,560
Average	$3,520	$3,170

8B. Do you contemplate raising board compensation in the next year?

	% 1981	% 1982
Yes	28.7%	26.2%
No	67.0%	69.9%
No Response	4.3%	3.9%
TOTAL	100.0%	100.0%
	(606)	(611)

If yes, by how much? (26.2%)

Type and Size of Company	1981 Average Amount of Projected Increase	1982 Average Amount of Projected Increase
Industrials		
Under $200 million	$2,710	$1,930
$200 million-$399 million	$2,070	$1,240
$400 million-$599 million	$2,080	$2,260
$600 million-$999 million	$1,660	$2,750
$1 billion-$2.999 billion	$3,300	$2,340
$3 billion-$4.999 billion	$5,710	$2,690
$5 billion and over	$4,460	$4,280
Banks & Financial Institutions	$2,450	$1,750
Insurance Companies	$2,780	$1,630
Retailers	$3,520	$2,670
Average	$2,870	$2,210

8C. How much did the highest paid outside director receive in 1982 for all board service activities exclusive of any consulting fees?

Type and Size of Company	1978 Average Compensation	1982 Average Compensation	1982 Upper Quartile Average
Industrials			
Under $200 million	$ 8,570	$11,120	$20,300
$200 million-$399 million	$10,240	$16,940	$27,270
$400 million-$599 million	$13,210	$15,750	$23,380
$600 million-$999 million	$13,830	$17,460	$25,000
$1 billion-$2.999 billion	$19,760	$24,090	$36,160
$3 billion-$4.999 billion	$21,480	$30,580	$42,500
$5 billion and over	$26,020	$36,200	$49,100
Banks & Financial Institutions	$11,430	$20,700	$34,070
Insurance Companies	$13,790	$21,420	$39,460
Retailers	$14,070	$18,980	$27,500
Average	$13,940	$21,720	$36,550

FIVE YEAR TREND

8D. Who is primarily responsible for establishing board compensation?

	%
Chairman	35.5%
Compensation Committee	18.0%
Entire Board	21.6%
Combination of above	29.3%
No Response	3.6%
TOTAL	100.0%
	(611)

8E. What benefits are included in the compensation plan for outside directors?

	%
Travel Expense Reimbursement	86.4%
Directors Liability Insurance	85.6%
Deferral of Board Fees Until Retirement	55.3%
Accident Insurance	43.4%
Matching Educational Gifts Program	40.1%
Travel Expenses for Spouse	23.7%
Life Insurance	18.8%
Medical Insurance	10.5%

TABLE 9—BOARD PRACTICES AND POLICIES

9A. How many regular board meetings are held during the fiscal year?

Meetings Per Year	%
Under 5	18.5%
5-6	29.6%
7-9	16.2%
10-12	33.2%
13 and over	1.6%
No Response	0.9%
TOTAL	100.0%
	(611)
Average	8 meetings

9B. How many hours (estimated) do directors spend annually on board matters, including review, preparation, meetings and travel?

Number of Hours	% 1978	% 1982
Under 24	1.5%	2.1%
24 to 40	13.1%	4.4%
41 to 70	22.7%	17.2%
71 to 100	30.3%	20.8%
101 to 130	6.6%	14.2%
131 to 160	5.2%	10.5%
161 to 190	6.8%	5.2%
191 and over	13.8%	10.8%
No Response	—	14.8%
TOTAL	100.0%	100.0%
	(542)	(611)
Average	89 hours	123 hours

FIVE YEAR TREND

Hours (continued)

Type and Size of Company	Average Number of Hours	Upper Quartile Average
Industrials		
Under $200 million	85	138
$200 million-$399 million	109	169
$400 million-$599 million	107	162
$600 million-$999 million	112	187
$1 billion-$2.999 billion	145	198
$3 billion-$4.999 billion	152	217
$5 billion and over	176	226
Banks & Financial Institutions	114	174
Insurance Companies	107	186
Retailers	93	147
Average	123	189

TABLE 10—LOCATING OUTSIDE DIRECTORS

10A. How many new directors were added during the past year?

Number Added	% Inside Directors	% Outside Directors
None	53.7%	39.3%
One	16.9%	34.2%
Two	3.1%	11.3%
Three	0.8%	2.9%
Four or More	0.5%	1.4%
No Response	25.0%	10.9%
TOTAL	100.0%	100.0%
	(611)	(611)

10B. How are outside directors located for the board?

	% 1978	% 1982
Recommendation of chairman	75.1%	78.1%
Recommendation of board members	75.5%	75.5%
Selection or nominating committee	35.6%	51.9%
Recommendation of other corporate officers	48.2%	37.5%
Referral from executive acquaintances	19.2%	11.5%
Executive search	6.3%	9.2%
Bank referral	2.6%	1.8%
Referral from attorneys	2.0%	2.0%

FIVE YEAR TREND

10C. What are the primary considerations in asking a prospective director to sit on the board?

	%
Corporate experience	75.8%
Functional experience	44.5%
Specific related experience	43.9%
Prestige	10.8%
Other	7.5%

10D. Have any prospective directors declined an invitation to serve on the board during the past year?

	%
Yes	18.1%
No	78.7%
No Response	3.2%
TOTAL	100.0%
	(611)

If yes, what are the predominant reasons? (18.1%)

	%
Time commitment	70.0%
On too many boards	30.9%
Conflict of interest	21.8%

TABLE 11 – ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	55.2%	82.0%	93.7%
Strategic planning	21.1%	51.2%	74.6%
Day-to-day operations	17.3%	34.4%	47.1%
Managerial succession	9.9%	20.4%	36.8%
Mergers/Acquisitions	2.1%	10.6%	28.2%
Corporate ethics	1.5%	4.3%	10.5%
Shareholder relations	1.9%	4.5%	9.5%
Multinational issues	0.9%	4.4%	8.8%
Government relations	0.2%	1.9%	6.5%
Public relations	0.6%	1.9%	4.1%

TABLE 12—PARTICIPATING COMPANIES—SIZE

Size of Company	No. of Companies	%
Industrials		
Under $200 million	40	6.6%
$200 million-$399 million	81	13 3%
$400 million-$599 million	51	8.3%
$600 million-$999 million	58	9.5%
$1 billion-$2.999 billion	112	18.3%
$3 billion-$4.999 billion	51	8.3%
$5 billion and over	56	9.2%
Banks & Financial Institutions	76	12.4%
Insurance Companies	56	9.2%
Retailers	30	4.9%
TOTAL	611	100.0%

TABLE 13—PARTICIPATING COMPANIES—STOCK EXCHANGE

Exchange	%
New York Stock Exchange	71.8%
American Stock Exchange	5.7%
Over-the-Counter	13.4%
Other (private, mutual)	9.1%
TOTAL	100.0%
	(611)

TABLE 14—PARTICIPATING COMPANIES—TYPE

Type of Company*	%
Industrial	73.5%
Banking and Other Financial	12.4%
Insurance	9.2%
Retail	4.9%
TOTAL	100.0%
	(611)

*1000 companies were asked to participate. There were 611 responses available for tabulation at our deadline. The companies asked to participate included the "Fortune 500", the "Fortune" 50 major banking institutions, 50 major insurance companies, 50 major diversified financial companies, 50 major retailers, 50 major transportation companies and 250 selected smaller companies.

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KORN/FERRY INTERNATIONAL

Board of Directors

Annual Study

Retail Industry

Supplement 1983

A Publication of Korn/Ferry International

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BOARD OF DIRECTORS ANNUAL STUDY

For the past 10 years, Korn/Ferry International has surveyed the board practices and policies of America's largest industrial and service corporations. Again this year, we invited 50 of the largest retailers plus selected smaller ones to participate in our nationwide survey. We are pleased that 30 responded, more than half of which have assets over $2 billion. Because we believe it is beneficial for retail boards to be able to compare and evaluate their practices with others in the same industry, we have, for the sixth consecutive year, isolated their results in this special supplement to our Tenth Annual Board of Directors Study.

Retailers continue to be among the leaders in having women and ethnic minorities on their boards and representation of both these groups went up again this year. Reflecting a preference for management experience, senior and retired executives of other companies are the two largest sources for outside retail directors. But this year, women comprise the third largest.

Seventeen percent of the retail respondents now have a corporate ethics committee. This is not only up from 12 percent last year, but is more than double the average for all the survey participants.

Retailers have increasingly moved into the mainstream of U.S. corporations in the method and amount of outside director compensation. This year 80 percent report paying an annual plus per meeting fee, up from 68 percent five years ago. And while total compensation went up only three percent this year, it has risen 51 percent over the past five years. At a current average annual fee of $16,950, retail directors are now very much on a par with the $16,990 payed by all respondents. However, the highest paid retail directors do not receive the equivalent of their peers at other companies, $18,980 vs. $21,720.

The percentage of retailers offering their directors the option of deferring fees until retirement went up dramatically from 30 percent last year to 53 percent this year. And the percentage paying retirement benefits to their outside directors has more than doubled to 13 percent this year. While retailers offer travel expense reimbursement and directors liability insurance, they generally trail all respondents in providing other benefits to outside directors.

We hope you will find these highlights and the other results included in this supplement to be meaningful and useful. We welcome your suggestions on how we might enhance next year's study.

Lester B. Korn

Richard M. Ferry

February 1983

SUMMARY OF FINDINGS

On a question-by-question basis, the following findings relate directly to retail industry respondents. (Table 1) Where appropriate, comparisons are made with all responding corporations* in our study.

1. Size of Board (Table 2)

The average board of directors of responding retail companies consists of 13 members. This is up one from last year and equals the average for all responding companies.

2. Inside Director vs. Outside Director (Table 2)

Retail boards average five inside directors and eight outside directors – one more inside and one less outside director than the average for all respondents. Although the majority (73%) prefer that more than half their directors come from outside the company, only 17 percent prefer three-quarters or more be outside directors, the smallest percentage of any responding group.

3. Board Composition (Table 3)

The boards of the retail respondents are largely comprised of outside directors with management experience. Senior executives and retired executives of other companies, the largest categories, both experienced significant gains this past year (the former from 76% to 83% and the latter from 55% to 67%). Women, now on 63 percent of these boards, have become the third largest category, up from 52 percent last year. And 83 percent of the retail respondents with revenues in excess of $2 billion have female representation, the largest percentage of any group responding to the survey. (Table 3A)

This past year, the composition of retail boards underwent major shifts. Besides the three categories cited above, others that experienced significant gains include:

- Ethnic minorities – From 12% last year to 33% this year.
- Non-U.S. citizens – From 6% to 13%.
- Attorneys who do not provide legal services to the company – From 21% to 30%.
- American international executives – From none last year to 10% this year.

Women and ethnic minorities, who made noteworthy advances this past year, again generally are drawn from categories which have extensive business experience. Women are predominantly senior executives of other companies

*611 corporations responded to our Tenth Annual Study. Industrial corporations account for 74 percent of the total of which 219 have sales over $1 billion. Banks and financial institutions account for 12 percent, insurance companies for nine percent and retailers for five percent.

(32%), academicians (21%) and former government officials (11%). Minorities mostly come from the ranks of senior executives of other companies and attorneys who do not provide legal services, both at 40 percent. (Table 3B)

Groups experiencing significant decreases include:

- Investment bankers– From 33% last year to 20% this year.
- Professional directors– From 21% to 13%.
- Major shareholders– From 49% to 37%.
- Commercial bankers– From 27% to 20%.
- Attorneys who provide legal services to the company– From 36% to 30%.

4. Is the Chairman also the CEO?
Is the CEO also the COO? (Table 4)

Seventy-seven percent of the retail respondents report that their chairman is also their chief executive officer– up from 70 percent last year. Down, however, is the percentage reporting that their chief executive officer is also their chief operating officer– from 39 percent to 37 percent.

5. Committees (Table 5)

The audit, executive and compensation committees continue to be the most widely reported standing committees among retailers as they are among all respondents. The percentage of retailers having an audit committee (97%) or an executive or compensation committee (83% each) has changed very little over the past year. There were, however, significant increases in the percentage reporting finance, nominating and corporate ethics committees.

This year, 17 percent state that they have a corporate ethics committee– up from 12 percent last year and more than double the average for all respondents. A finance committee is now reported by 47 percent of the retail respondents– compared to 39 percent last year; 63 percent report a nominating committee, up from 52 percent last year. (Table 5A) The nominating committee also continues to play an important role in committee appointments and, along with the executive and compensation committees, in the management succession process.

The public affairs committee is the largest, averaging six members this year. The corporate ethics and benefits committees are the smallest, averaging three each. The audit, compensation and corporate ethics committees are composed entirely of outside directors while the executive and finance committees have the most inside directors, averaging two each. (Table 5B) Eighty-seven percent of the retail respondents annually review committee appointments.

Among retailers, committees generally meet less frequently than they do among all respondents. The compensation, finance, public affairs, nominating and corporate ethics each average at least one less meeting per year. (Table 5C) Only 40 percent of the retailers believe that the time directors devote to committees is increasing– down considerably from the 64 percent stating this belief in last year's study.

6. Compensation (Table 6)

Eighty percent of the participating retailers compensate their ouside directors on an annual plus per meeting fee basis, 17 percent pay an annual fee only and only one company pays a per meeting fee only.

– Annual and Per Meeting Fee (80% of the Respondents)

This method of compensation is increasingly popular among retailers as it is among all respondents. Just five years ago, only 68 percent of the retailers reported using this method of compensation. They report a total average annual compensation of $16,950, only three percent more than the $16,380 reported last year and almost equal to the average for all respondents ($16,990). The total is comprised of an average annual fee of $12,400 and an average per meeting fee of $631.

The "upper quartile average" for retail directors, included for comparative purposes, is $25,410–13 percent more than the $22,500 averaged last year.

– Annual Fee Only (17% of the Respondents)

The average annual fee is $12,500. Although this is up slightly from last year's $12,430, it is still considerably below the $16,100 average for all respondents.

7. Additional Compensation Information (Table 7)

Eighty-seven percent of the retail respondents pay their outside directors additionally for serving on committees. Of these, 73 percent pay a per meeting fee only, averaging between $470 and $600 per meeting for members of the various committees. Nineteen percent pay an annual plus per meeting fee, averaging between $1,680 and $3,230 per year. The eight percent, who pay an annual fee only, pay an average annual fee of $6,000. (Table 7A) Chairmen are generally compensated at a higher rate than committee members. Seventy percent of the responding retailers annually review board committee fees.

Both the percentage of retailers who raised board fees and the amount of the increase are down this year compared to last year. Only 47 percent raised fees to their outside directors, an average of $2,560. Last year 67 percent raised them an average of $2,770. The amount of this year's increase is also below the overall average increase of $3,170. Thirty percent of the retailers contemplate an increase during the next 12 months, projecting an average raise of $2,380.

The highest paid outside retail director earns, exclusive of any consulting fees, an average $18,980 per year for board services. This is 13 percent below the $21,720 average for all respondents. The upper quartile average in this category is $27,500 for retail directors compared to $36,550 for all directors. (Table 7B) Thirty percent of the retail respondents have outside directors who also receive consulting fees – the highest percentage of any group responding to the survey.

Fifty-three percent of the retailers have compensation plans that allow outside directors to defer fees until retirement. This is up significantly from the 30

percent reporting fee deferral plans last year. Furthermore, the percentage of retailers providing remuneration to their outside directors after their retirement has more than doubled, from six percent last year to 13 percent this year. Travel expense reimbursement (provided by 90% of the retailers) and directors liability insurance (provided by 87%) are other commonly offered benefits to retail directors. On the whole, however, retailers lag behind all the respondents in the benefits they provide. (Table 7C)

Eighty-seven percent of the retailers have procedures whereby directors annually review and establish appropriate compensation for chief executive officers as well as for other senior officers.

8. Board Practices and Policies (Table 8)

Retail boards meet an average of seven times per year, one less than the average for all respondents. Fifty-three percent hold at least one of these meetings outside of their headquarters office or major facility city.

The estimated number of hours retail directors devote annually to board-related matters decreased to 93 from 100 hours last year. This is considerably below the 123 hours averaged by all respondents (Table 8A) and brings the hourly rate retail directors earn above the rate earned by all respondents. If compensated on an annual plus per meeting fee basis, retail directors earn $182 per hour – 32 percent more than the $138 per hour overall average.

During the past year, outside directors resigned from 40 percent of the retail boards, mostly because of retirement. Seventeen percent of the retail respondents added new inside directors and 47 percent added new outside directors this past year. They continue to predominantly use the traditional and informal means of recommendations of the chairman and other board members in identifying and selecting new outside directors. The use of the formal nominating committee, however, continues to be strong. (Table 8B) According to 77 percent of the retailers, corporate experience is the primary consideration for asking a prospective director to sit on the board. (Table 8C) Twenty-three percent of the retailers had a prospective director decline an invitation to sit on their boards – up from 15 percent last year. The primary reason for declining continues to be the time demands involved.

Fifty-three percent of the retail respondents require all their directors to sign the Form 10-K instead of the simple majority required by the Securities and Exchange Commission – up from 49 percent last year.

9. Board Issues (Table 9)

As with all respondents, financial results is the most important issue facing retail boards today. When asked to rank the importance of various issues, 96 percent ranked it first, second or third. Strategic planning was second (ranked first, second or third by 78%) followed by managerial succession and day-to-day operations. Financial results also gets the most attention at board meetings. Retailers estimate that 37 percent of board meeting time is devoted to it.

TABLE 1 – PARTICIPATING COMPANIES

Thirty of America's major retailers participated in our Tenth Annual Study.

Size (Sales)	No. of Retailers	%
Under $2 billion	12	40.0%
$2 billion and over	18	60.0%
TOTAL	30	100.0%

Stock Exchange	No. of Retailers	%
New York Stock Exchange	24	80.0%
American Stock Exchange	2	6.7%
Other	4	13.3%
TOTAL	30	100.0%

TABLE 2 – PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Under $2 billion	4	6	10
$2 billion and over	5	9	14
Average	5	8	13

TABLE 3–BOARD COMPOSITION

3A. Are one or more of the following individuals on the board?

	1981 Retailers	1982 Retailers	1982 All Companies Surveyed
Senior Executive (other companies)	75.8%	83.3%	88.2%
Retired or Previously Employed Corporate Officer	51.5%	46.7%	46.8%
Commercial Banker	27.3%	20.0%	33.6%
Attorney (provides legal services to the company)	36.4%	30.0%	28.2%
Academician	45.5%	46.7%	50.4%
Investment Banker	33.3%	20.0%	23.7%
Major Shareholder (not officer of the company)	48.5%	36.7%	30.4%
Attorney (does not provide legal services to the company)	21.2%	30.0%	33.7%
Former Government Official	12.1%	10.0%	27.2%
Female	51.5%	63.3%	41.2%
Ethnic Minority Representative	12.1%	33.3%	23.2%
Non-U.S. Citizen	6.1%	13.3%	17.0%
International Executive (American)	—	10.0%	7.5%
"Professional" Director	21.2%	13.3%	19.5%
Retired Executive (other companies)	54.5%	66.7%	66.3%

3B. From which of the above functions are most women and ethnic minorities drawn ?

Function	% Women	% Minorities
Sr. Executives (other companies)	31.6%	40.0%
Academicians	21.1%	10.0%
Former Government Officials	10.5%	10.0%
Attorneys (do not provide legal services)	5.3%	40.0%

TABLE 4–CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	% CEO	% COO
Yes	76.7%	36.7%
No	23.3%	60.0%
No Response	0.0%	3.3%
TOTAL	100.0%	100.0%
	(30)	(30)

TABLE 5—COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	1981 Retailers	1982 Retailers	1982 All Companies Surveyed
Audit	100.0%	96.7%	98.2%
Executive	81.8%	83.3%	78.4%
Compensation	78.8%	83.3%	86.3%
Finance	39.4%	46.7%	35.7%
Nominating	51.5%	63.3%	56.6%
Public Affairs	18.2%	16.7%	11.8%
Corporate Ethics	12.1%	16.7%	8.0%
Benefits	36.4%	36.7%	32.9%

5B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	4	4
Executive	2	3	5
Compensation	0	4	4
Finance	2	3	5
Public Affairs	1	5	6
Nominating	1	4	5
Corporate Ethics	0	3	3
Benefits	1	2	3

5C. How many committee meetings were held during the past twelve months?

Committee	1981 Average Number of Meetings	1982 Average Number of Meetings
Audit	4	3
Executive	3	4
Compensation	3	3
Finance	3	2
Public Affairs	3	2
Nominating	2	1
Corporate Ethics	1	1
Benefits	2	3

TABLE 6—COMPENSATION

Annual and Per Meeting Fee (80.0% of the Respondents)

Annual Fee Amount	%
Under $5,000	4.2%
$5,000-$10,999	16.7%
$11,000-$13,999	41.7%
$14,000 and over	37.4%
TOTAL	100.0%
	(24)
Average Annual Fee	$12,400

PLUS

Amount Per Meeting	%
Under $250	8.3%
$250-$499	4.2%
$500-$599	45.8%
$600-$799	29.2%
$800 and over	12.5%
TOTAL	100.0%
	(24)
Average Per Meeting Fee	$631

EQUALS

Total Annual Compensation	%
Under $5,000	4.2%
$5,000-$10,999	8.3%
$11,000-$13,999	8.3%
$14,000-$16,999	33.3%
$17,000-$19,999	16.7%
$20,000 and over	29.2%
TOTAL	100.0%
	(24)
Average Total Annual Compensation	$16,950

Annual and Per Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Retailers	$16,950	$25,410
Banks & Financial Institutions	$15,310	$24,650
Insurance Companies	$13,950	$22,920
Industrials		
Under $200 million	$ 8,720	$13,000
$200 million-$399 million	$11,900	$16,800
$400 million-$599 million	$14,580	$24,800
$600 million-$999 million	$15,430	$22,300
$1 billion-$2.999 billion	$18,300	$25,300
$3 billion-$4.999 billion	$26,760	$30,620
$5 billion and over	$24,960	$34,610
Average	$16,990	$26,500

TABLE 7–ADDITIONAL COMPENSATION INFORMATION

7A. Are outside directors paid an extra fee for serving on a committee?

	%
Yes	86.7%
No	13.3%
TOTAL	100.0%
	(30)

If yes, how are they compensated? (86.7%)

Compensation	%
Per Meeting Fee Only	73.1%
Annual and Per Meeting Fee	19.2%
Annual Fee Only	7.7%
TOTAL	100.0%
	(26)

7B. How much did the highest paid director receive in 1982 for all board service activities exclusive of any consulting arrangement?

Amount	%
Under $7,000	3.2%
$7,000-$10,999	6.7%
$11,000-$13,999	10.0%
$14,000-$16,999	10.0%
$17,000-$19,999	16.7%
$20,000-$24,999	20.0%
$25,000 and over	16.7%
Unspecified	16.7%
TOTAL	100.0%
	(30)
Average	$18,980

Highest paid director

Type and Size of Company	Average Compensation	Upper Quartile Average
Retailers	$18,980	$27,500
Banks & Financial Institutions	$20,700	$34,070
Insurance Companies	$21,420	$39,460
Industrials		
Under $200 million	$11,120	$20,300
$200 million-$399 million	$16,940	$27,270
$400 million-$599 million	$15,750	$23,380
$600 million-$999 million	$17,460	$25,000
$1 billion-$2.999 billion	$24,090	$36,160
$3 billion-$4.999 billion	$30,580	$42,500
$5 billion and over	$36,200	$49,100
Average	$21,720	$36,550

7C. What benefits are included in the compensation plan for outside directors?

	% Retailers	% All Companies Surveyed
Travel Expense Reimbursement	90.0%	86.4%
Directors Liability Insurance	86.7%	85.6%
Deferral of Board Fees Until Retirement	53.3%	55.3%
Accident Insurance	33.3%	43.4%
Travel Expenses for Spouse	23.3%	23.7%
Matching Educational Gifts Program	16.7%	40.1%
Life Insurance	13.3%	18.8%
Medical Insurance	6.7%	10.5%

TABLE 8—BOARD PRACTICES AND POLICIES

8A. How many hours (estimated) do directors spend annually on board matters including review and preparation time, meeting attendance and travel?

Number of Hours	%
40 and under	16.7%
41 to 70	16.7%
71 to 100	13.3%
101 to 160	20.0%
161 to 250	6.6%
No Response	26.7%
TOTAL	100.0%
	(30)
Average	93 hours

Hours

Type and Size of Company	Number of Hours	Upper Quartile Average
Retailers	93	147
Banks & Financial Institutions	114	174
Insurance Companies	107	186
Industrials		
Under $200 million	85	138
$200 million-$399 million	109	169
$400 million-$599 million	107	162
$600 million-$999 million	112	187
$1 billion-$2.999 billion	145	198
$3 billion-$4.999 billion	152	217
$5 billion and over	176	147
Average	123	189

8B. How are outside directors located for the board?

	%
Recommendation and known to board members	70.0%
Recommendation and known to chairman	63.3%
Selection or nominating committee	46.7%
Recommendation and known to other corporate officers	23.3%
Executive search	13.3%
Referral from executive acquaintances	10.0%

8C. What are the primary considerations in asking a prospective director to sit on the board?

	%
Corporate Experience	76.7%
Functional Experience	53.3%
Specified Related Experience	46.7%
Prestige	10.0%

TABLE 9—ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	58.3%	83.3%	95.8%
Strategic planning	21.7%	56.5%	78.2%
Managerial succession	4.3%	17.3%	56.4%
Day-to-day operations	13.6%	36.3%	54.5%
Public relations	—	6.2%	6.2%
Government relations	—	—	6.2%
Mergers/Acquisitions	—	6.2%	6.2%
Shareholder relations	5.6%	5.6%	5.6%
Corporate ethics	—	—	5.6%

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KORN/FERRY INTERNATIONAL

Board of Directors

Annual Study

Billion Dollar Industrials

Supplement 1983

A Publication of Korn/Ferry International

the world's largest executive search firm

Other Publications

- The Outside Director of the Public Corporation (with the University of Pennsylvania Law School)
- The Independent Director in the British Company (with the Oxford Centre for Management Studies)
- The Nominating Committee: Trends in Selecting Directors of Major U.S. Corporations (with the Yale School of Organization and Management)
- Korn/Ferry International's Executive Profile: A Survey of Corporate Leaders (with the Graduate School of Management, UCLA)
- Profile of the Successful Personnel Executive (with the Graduate School of Management, UCLA)
- National Index of Executive Vacancies (published quarterly)
- British Corporate Leaders—A Profile (with the Business Graduate School of the London Business School)
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BOARD OF DIRECTORS ANNUAL STUDY

In order to better understand the major trends and changes affecting corporate governance, Korn/Ferry International initiated an annual study of the board practices and policies of major United States corporations ten years ago. During this past decade, it became increasingly clear that the larger companies were setting the trends. For this reason, six years ago we began to isolate the statistical data for large companies and publish a special supplement specifically for industrials with revenues in excess of $1 billion.

When we first published this supplement, 118 or 24 percent of the respondents qualified for inclusion. This number has grown dramatically with a record 219 companies participating this year – 36 percent of the respondents. We believe the results from this record response will be meaningful and useful to the directors of large companies as well as to the entire corporate community since these large corporations have been the bellwethers of change over the course of our study.

Outside directors continue to dominate among the billion dollar corporations, outnumbering inside directors by a better than two-to-one margin. This year, as they did last year, these companies average four inside and 10 outside directors. Over the years, our study has clearly documented the strong preference for drawing outside directors from the ranks of senior and retired executives of other companies, indicating a desire for directors with extensive business experience. Answering a new question this year, nearly three-quarters of the billion dollar respondents cited corporate experience as the primary consideration in asking prospective directors to sit on their boards.

The billion dollar companies lead all other groups in the percentage of former government officials on their boards. These officials now sit on 44 percent of the large company boards – considerably more than the 27 percent average for all respondents. Moreover, they sit on 60 percent of the boards of the very largest companies ($5 billion and up).

As would be expected, directors of the Billion Dollar Industrials earn more than directors of smaller companies. However, it appears that fees for directors of these large concerns have reached an appropriate level since fewer raised fees this year compared to last (42% versus 57%) and still fewer (26%) are

contemplating raising fees this coming year. Moreover, this year's increase of $3,660 was 20 percent below last year's $4,570. And the contemplated increase for next year averages only $2,950.

As noted last year, deferral of board fees is an increasingly popular option offered to outside directors. Sixty-seven percent of the billion dollar companies now provide this option – up from 52 percent last year and up from 46 percent two years ago. Other benefits widely reported by the Billion Dollar Industrials include directors liability insurance, travel expense reimbursement, matching educational gifts programs and accident insurance. Since the area of benefits is one of increasing interest to our respondents, we will continue to track the data to expand the information available on this subject.

We hope that these highlights and the detailed findings included in this study will be helpful in evaluating your board practices. We welcome your suggestions on how we might enhance next year's study.

Lester B. Korn

Richard M. Ferry

February 1983

SUMMARY OF FINDINGS

On a question-by-question basis, the following findings are directly related to Billion Dollar Industrial Corporations. (Table 1) Where appropriate, key comparisons are made with all the participants* in our study.

1. Size of Board (Table 2)

The average number of directors on the board of a billion dollar corporation equals 14 – unchanged over the past six years. The average for all respondents is 13, while banks and financial institutions have the largest boards, averaging 19.

2. Inside Directors vs. Outside Directors (Table 2)

As they did last year, the Billion Dollar Industrials average four inside and 10 outside directors. These large companies reflect the attitude of the majority of all respondents in the desire for a preponderance of outside representation. Eighty-one percent stated that they prefer more than half their board to be comprised of outside directors.

3. Board Composition (Table 3)

Senior executives of other companies (on 93% of the boards), retired executives of other companies (on 73%) and academicians (on 64%) are the paramount sources of outside directors among the Billion Dollar Industrials. (Table 3A) These companies, like all participants in the study, are clearly looking for substantial business experience when selecting outside directors. This has been corroborated by a new question this year. When asked to name the primary consideration in asking a prospective director to sit on the board, 72 percent of the billion dollar companies cited corporate experience.

During the past five years, the changes in board composition underscore the desire for more independent outside directors. For example, significant decreases in representation have been experienced by:

- Commercial bankers – From 50% in 1978 to 37% this year.
- Investment bankers – From 36% to 27%.
- Retired or previously employed corporate officers – From 62% to 53%.

Groups scoring notable gains in board seats are:

- Women – From 34% in 1978 to 48% this year.
- Ethnic minorities – From 22% to 32%.
- Former government officials – From 39% to 44%.
- Academicians – From 60% to 64%.

*611 corporations responded to our Tenth Annual Study. Industrial companies account for 74 percent of the total of which 219 have revenues in excess of $1 billion. Banks and financial institutions account for 12 percent, insurance companies for nine percent and retailers for five percent.

Women and ethnic minorities have made the most striking gains but, again, most are drawn from sources with substantial business experience. Women are predominantly academicians (26%), senior executives of other companies (21%) and former government officials (16%). Ethnic minorities generally come from the ranks of academicians (25%), senior executives of other companies (23%) and former government officials (16%). (Table 3B)

Former government officials are more prominant on boards of billion dollar companies than on any others participating in this year's study. They sit on 44 percent of the largest company boards compared to 27 percent for all respondents, 33 percent of banks and financial institutions, 32 percent of the insurance companies and only 10 percent of the retailers. Furthermore, they are on more than 60 percent of the boards of the very largest companies ($5 billion and up).

4. Is the Chairman also the CEO?
Is the CEO also the COO?

Eighty-four percent of the billion dollar corporations state that their chairman is also their chief executive officer. This is up from 81 percent last year and is somewhat higher than the 79 percent averaged by all respondents.

On the other hand, the percentage of billion dollar companies reporting that their chief executive officer is also their chief operating officer is down from last year and is lower than the overall average. Only 34 percent of the larger companies report this relationship compared to 39 percent last year and compared to 40 percent of all of this year's respondents.

5. Committees (Table 4)

As they have since the inception of the Billion Dollar Supplement, the audit (98%), the compensation (90%) and the executive (81%) committees continue to be the most prevalent. Over the past five years, however, these percentages have decreased somewhat while the percentages of companies having nominating, finance, public affairs and corporate ethics committees have been increasing.

The most notable increase has been in the use of the nominating committee. Among the Billion Dollar Industrials, 70 percent report having one this year compared to 50 percent five years ago. Furthermore, billion dollar companies make greater use of this committee compared to all the respondents – 57 percent of which reported one. (Table 4A) Another five percent of these large corporations state that they are considering the establishment of a nominating committee within the next year. The role of this committee continues to be an important factor in both the management selection process and in appointments of directors to board committees.

Committee composition did not change at all over the past year. The committees average between four and six directors. The audit, compensation and benefits committees continue to be comprised entirely of outside directors,

while the executive committee, with three, has the most inside directors. (Table 4B) Ninety-one percent of the Billion Dollar Industrials annually review board committee appointments.

The only change in the number of committee meetings held during the past 12 months was the decrease from four to three meetings of the executive committee. The nominating committee holds two meetings per year and all others average three or four. (Table 4C) Forty-nine percent of the billion dollar respondents feel that the time directors devote to committees is increasing – only two percent feel it is decreasing.

6. Compensation (Table 5)

Ninety percent of the billion dollar companies compensate their outside directors on an annual plus per meeting fee basis – up significantly from the 80 percent doing so five years ago. Nine percent pay an annual fee only and just one percent (two companies) pays a per meeting fee only.

– Annual and Per Meeting Fee (90%)

The average total annual compensation for outside directors of the billion dollar companies that pay an annual plus per meeting fee is $22,040. This is a sizable 30 percent more than the $16,990 earned by directors of all respondents. It is, however, only seven percent more than the $20,640 earned last year. The components of this method of compensation include an average annual fee of $13,600 and an average per meeting fee of $707.

The "upper quartile average" for Billion Dollar Industrials has been included in this category for comparative purposes. Ranging from $25,300 to $34,610, the average is up six percent this year – from last year's $28,540 to $30,300. (Table 5)

– Annual Fee Only (9%)

In this category, fees went up considerably this year. They now average $24,900 compared to $17,950 last year – a 39 percent increase. However, the number of companies that employ this method of compensation is down from 16 percent five years ago – a 44 percent decrease.

7. Committee Compensation

Ninety percent of the billion dollar respondents pay their directors an additional fee for serving on committees. The majority of these – 60 percent – pay a per meeting fee only for committee service. Thirty-two percent pay an annual plus per meeting fee and eight percent pay an annual fee only.

Among the 60 percent that pay a per meeting fee only, fees for committee members range from a low of $520 per meeting for the benefits committee to a high of $930 for the finance committee with an overall average of $620 per meeting.

If paid an annual fee only, fees for committee members range from $1,000 per year for service on the corporate ethics committee to $6,220 per year for service on the compensation committee with an overall average of $4,780 per year. In most cases, the committee chairman is compensated at a higher rate than committee members. Seventy-two percent of the billion dollar companies annually review board committee fees.

8. Additional Compensation Information (Table 6)

During the past year, 42 percent of the Billion Dollar Industrials increased board compensation to outside directors. This is considerably less than the 57 percent that increased compensation during the previous year. The average increase also was lower – $3,660 this year compared to a $4,570 increase last year, a 20 percent difference. Only 26 percent of these large corporations are contemplating raising directors fees during the coming year – projecting a raise of only $2,950, down 25 percent from the increase projected last year. Eighty-seven percent believe that their outside directors are adequately compensated.

Eighty-six percent of the billion dollar respondents compensate outside directors even though they do not attend board meetings. However, most (96%) limit that compensation to the annual fee only.

The highest amount received by an outside director for board services, exclusive of any consulting activities, averages $28,680 for the billion dollar companies. Although this is 32 percent more than the $21,720 average for all respondents, it is only four percent more than the highest amount received last year. The upper quartile averages, included for comparative purposes, range from $36,160 to $49,100 and average $41,770. (Table 6A) Twenty-eight percent of these companies have directors who also receive consulting fees.

A compensation plan that allows deferral of board fees until retirement is now offered by 67 percent of the Billion Dollar Industrials. This is becoming an increasingly popular alternative – two years ago, only 46 percent offered it. Additionally, another seven percent are considering the establishment of such a plan. Nineteen percent have a program that provides remuneration for outside directors after they retire. Other benefits commonly incorporated in the compensation plans for outside directors of the billion dollar companies include directors liability insurance (92%), travel expense reimbursement (92%), matching educational gifts programs (60%) and accident insurance (55%). (Table 6B) More than half (56%) invite spouses of their outside directors to attend special board functions.

Ninety-four percent of the billion dollar respondents have a procedure whereby directors annually review and establish appropriate compensation for the chief executive officer. Ninety percent have this procedure for other senior officers.

9. Board Practices and Policies (Table 7)

As they have for the past six years, the boards of the Billion Dollar Industrials meet an average of nine times per year (the average for all respondents is eight). Sixty percent held at least one regular board meeting away from the headquarters office or a major facility city during the year and 17 percent held at least one of these meetings outside the country.

A director of a billion dollar corporation spends an average of 155 hours a year on board-related business– compared to 123 hours for all respondents. This is up somewhat (9%) from last year's average of 142 hours. The upper quartile average for the billion dollar companies is 213 hours. (Table 7)

Based on reported compensation data, a director, if compensated on an annual and per meeting fee basis, receives $142 per hour. This is down slightly from last year's hourly rate ($145) and indicates that director compensation at the large industrial corporations is not keeping pace with the increased amount of time that is devoted to board business.

Ninety-seven percent of the billion dollar companies permit their chief executive officer to serve on outside public corporate boards. Only 35 percent responded that they permit their chief operating officer to do so. Other key executives are permitted to serve on outside public corporate boards at 95 percent of the billion dollar respondents, but 10 percent limit the number of executives who are allowed to do so.

Sixty-one percent of the largest industrials require all their directors to sign the Annual Report Form 10-K, although only a simple majority is required by the Securities and Exchange Commission.

Among these companies that have a mandatory retirement policy (87%), the average retirement age is 67 for inside directors and 70 for outside directors.

Thirty-eight percent of the Billion Dollar Industrials had outside directors resign from their boards during the past year, primarily because of retirement. Twenty-four percent added new inside directors and 56 percent added new outside directors. In identifying and selecting new outside directors, they still rely heavily on the traditional and informal means of recommendation by the chairman and other board members, although usage of the formalized nominating committee is almost on a par with these. In the six years of this special supplement, use of the nominating committee to select outside directors has more than doubled. Executive search firms are used by 13 percent of the billion dollar companies. And among the very largest (5 billion and up), the use of executive search is reported by 21 percent. (Table 8)

Twenty-two percent had a prospective director decline an invitation to serve on their board. Of these, the greatest majority (70%) cited the time commitment involved as the predominant reason. Forty percent expect a board vacancy in 1983.

11. Issues (Table 9)

When asked to rank issues facing corporate boards today in order of their importance, financial results far outdistanced all other issues. Not surprisingly, 92 percent ranked it first, second or third. Other major issues include strategic planning (ranked first, second or third by 78%), day-to-day operations and managerial succession (each ranked first, second or third by 43%). (Table 9) The only significant changes foreseen by these companies when asked to rank the same issues five years from now is the decreasing importance of day-to-day operations and the increasing importance of multi-national issues.

The amount of board meeting time devoted to these issues reflects their relative importance. The most time, 29 percent, is spent on financial results, followed by day-to-day operations (23%) and strategic planning (19%).

TABLE 1 – PARTICIPATING COMPANIES

Of those industrials with sales volumes over $1 billion, 219 participated in our Tenth Annual Study.

Size of Company	Number of Companies	%
$1 billion-$2.999 billion	112	5.1%
$3 billion-$4.999 billion	51	23.3%
$5 billion and over	56	25.6%
TOTAL	219	100.0%

Exchange	Number of Companies	%
New York Stock Exchange	204	93.1%
American Stock Exchange	8	3.7%
Other	7	3.2%
TOTAL	219	100.0%

TABLE 2 – NUMBER OF DIRECTORS

What is the present number of board members?

Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
$1 billion-$2.999 billion	4	9	13
$3 billion-$4.999	4	10	14
$5 billion and over	5	10	15
Average	4	10	14

TABLE 3–BOARD COMPOSITION

3A. Are one or more of the following individuals on the board?

	1978 Companies Over $1 Billion (143)	1982 Companies Over $1 Billion (219)	1982 All Companies Surveyed (611)
Senior Executive (other companies)	92.3%	92.7%	88.2%
Retired or Previously Employed Corporate Officer	61.5%	53.4%	46.8%
Commercial Banker	50.3%	37.4%	33.6%
Attorney (provides legal services to the company)	24.5%	21.9%	28.2%
Academician	60.1%	63.9%	50.4%
Investment Banker	36.4%	26.9%	23.7%
Major Shareholder (not officer of the company)	28.7%	25.6%	30.4%
Attorney (does not provide legal services to the company)	35.7%	33.3%	33.7%
Former Government Official	39.2%	43.8%	27.2%
Female	33.6%	47.9%	41.2%
Ethnic Minority Member	22.4%	31.5%	23.2%
Non-U.S. Citizen	21.0%	23.3%	17.0%
International Executive (American)	11.9%	8.7%	7.5%
"Professional Director"	N/A	21.9%	19.5%
Retired Executive (other companies)	N/A	72.6%	66.3%
		FIVE YEAR TREND	

3B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	25.7%	24.6%
Sr. Executives (other companies)	21.0%	23.2%
Former Government Officials	16.2%	15.9%
Attorneys (do not provide legal services)	16.2%	27.5%

TABLE 4—COMMITTEES

4A. Which of the following standing committees does the board have?

Committee	% 1978 Companies Over $1 Billion (143)	% 1982 Companies Over $1 Billion (219)	% 1982 All Companies Surveyed (611)
Audit	99.3%	97.7%	98.2%
Compensation	97.2%	90.0%	86.3%
Executive	85.3%	80.8%	78.4%
Nominating	50.3%	70.3%	56.6%
Finance	39.2%	45.2%	35.7%
Public Affairs	12.6%	16.0%	11.8%
Corporate Ethics	7.0%	10.5%	8.0%
Benefits	N/A	32.9%	32.9%

FIVE YEAR TREND

4B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	4	4
Compensation	0	4	4
Executive	3	3	6
Nominating	1	4	5
Finance	2	4	6
Public Affairs	1	4	5
Corporate Ethics	1	4	5
Benefits	0	4	4

4C. How many committee meetings were held during the past twelve months?

Committee	1981 Average Number of Meetings	1982 Average Number of Meetings
Audit	3	3
Compensation	4	4
Executive	4	3
Nominating	2	2
Finance	4	4
Public Affairs	3	3
Corporate Ethics	3	3
Benefits	4	4

TABLE 5—COMPENSATION

How are board members compensated?
Annual and Per Meeting Fee (89.5% of Respondents)

Annual Fee Amount	%
Under $7,000	4.0%
$7,000-$10,999	14.3%
$11,000-$13,999	22.4%
$14,000-$16,999	34.3%
$17,000 and over	23.5%
Unspecified	1.5%
TOTAL	100.0%
	(196)
Average Annual Fee	$13,600

PLUS

Amount Per Meeting	%
Under $450	7.6%
$450-$599	29.6%
$600-$799	40.3%
$800-$999	7.7%
$1,000 and over	13.3%
Unspecified	1.5%
TOTAL	100.0%
	(196)
Average Per Meeting Fee	$707

EQUALS

Total Annual Compensation	%
Under $14,000	10.2%
$14,000-$16,999	10.3%
$17,000-$19,999	21.0%
$20,000-$24,999	35.9%
$25,000-$29,999	14.9%
$30,000 and over	7.7%
TOTAL	100.0%
	(196)
Average Total Annual Compensation	$22,040

Size of Company	1978 Average Compensation	1982 Average Compensation	1982 Upper 25% Average
$1 billion-$2.999 billion	$14,410	$18,300	$25,300
$3 billion-$4.999 billion	$17,000	$26,760	$30,620
$5 billion and over	$18,820	$24,960	$34,610
Average	$15,770	$22,040	$30,300

FIVE YEAR TREND

TABLE 6–ADDITIONAL COMPENSATION INFORMATION

6A. How much did the highest paid outside director receive in 1982 for all board activities exclusive of any consulting arrangement?

Amount	%
Under $11,000	2.2%
$11,000-$13,999	0.5%
$14,000-$16,999	4.6%
$17,000-$19,999	8.2%
$20,000-$24,999	25.1%
$25,000-$29,999	19.6%
$30,000-$39,999	22.8%
Over $40,000	10.6%
Unspecified	6.4%
TOTAL	100.0%
	(219)
Average	$28,680

Highest Paid Director

Size of Company	1978 Average Compensation	1982 Average Compensation	1982 Upper 25% Average
$1 billion-$2.999 billion	$19,760	$24,090	$36,160
$3 billion-$4.999 billion	$21,480	$30,580	$42,500
$5 billion and over	$26,020	$36,200	$49,100
Average	$21,280	$28,680	$41,770

FIVE YEAR TREND

6B. What benefits are included in the compensation plan for outside directors?

	%
Directors Liability Insurance	91.8%
Travel Expense Reimbursement	91.8%
Deferral of Board Fees Until Retirement	66.7%
Matching Educational Gifts Program	60.3%
Accident Insurance	54.8%
Travel Expenses for Spouse	28.3%
Life Insurance	24.2%
Medical Insurance	11.9%

TABLE 7—BOARD PRACTICES AND POLICIES

How many hours (estimated) do directors spend annually on board matters, including review, preparation, meeting attendance and travel?

Number of Hours	% 1978	% 1982
Under 40	6.3%	2.8%
41-70	12.6%	7.8%
71-100	30.8%	19.2%
101-160	19.6%	28.4%
161 and over	10.5%	23.7%
No Response	20.2%	18.1%
TOTAL	100.0%	100.0%
Average	112 hours	155 hours

FIVE YEAR TREND

Size of Company	Number of Hours	Upper Quartile Average
$1 billion-$2.999 billion	145	198
$3 billion-$4.999 billion	152	217
$5 billion and over	176	226
Average	155	213

TABLE 8—LOCATING OUTSIDE DIRECTORS

How are outside directors located for the board?

	% 1978	% 1982
Recommendation and known to chairman	72.0%	81.7%
Recommendation and known to board members	76.9%	77.6%
Selection or nominating committee	53.1%	67.1%
Recommendation and known to other corporate officers	45.5%	33.8%
Executive search	7.0%	13.2%
Referral from executive acquaintances	12.6%	12.3%
Referral from attorneys	2.1%	2.7%

FIVE YEAR TREND

TABLE 9—ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	48.6%	79.9%	92.2%
Strategic planning	27.6%	55.2%	77.6%
Day-to-day operations	17.8%	32.0%	42.7%
Managerial succession	11.2%	26.0%	42.6%
Mergers/Acquisitions	3.1%	8.1%	25.6%
Corporate ethics	3.1%	6.2%	16.1%
Multinational issues	1.9%	8.1%	12.5%
Government relations	0.6%	2.5%	8.1%
Shareholder relations	1.9%	3.8%	7.5%
Public relations	0.6%	1.8%	3.0%

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KORN/FERRY INTERNATIONAL

Board of Directors

Annual Study

Insurance Industry

Supplement 198

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BOARD OF DIRECTORS ANNUAL STUDY

For 10 consecutive years, Korn/Ferry International has surveyed the board practices and policies of America's largest industrial and service corporations. In November, 1982 we again invited 50 of the largest insurance companies as well as a cross-section of other life, casualty and combined life and casualty companies to participate. We are pleased that 56 responded of which 42 have assets over $2 billion. Because we believe it is beneficial for insurance companies to be able to compare and evaluate their board practices with others in their industry, we have once again isolated their responses in this special supplement to our Tenth Annual Study.

Insurance companies continue to pay their outside directors well below the average of all responding companies ($13,950 per year compared to $16,990). And although the number of hours they devote to board business has been steadily decreasing and is below the average for all respondents, their hourly rate still lags behind ($130 compared to $138). Moreover, insurance director fees appear to have peaked since the number and amount of increases are on the decline. Only 39 percent of the insurance respondents increased compensation for their outside directors this past year, considerably below the 53 percent that reported raising fees in last year's study. The amount of the increase is also considerably lower – $2,750 compared to $4,170 last year.

The insurance respondents again lead all others in offering compensation plans that allow their outside directors to defer board fees until retirement. They are also among the leaders in paying retirement benefits to their outside directors.

Insurance companies have greater numbers of women and ethnic minorities represented on their boards than most companies and most are drawn from sources where they have gained considerable management experience. Women are primarily senior executives of other companies, academicians

and former government officials. Minorities are generally senior executives of other companies and academicians. Insurers also lead in seeking outside directors from the academic community. Sixty-six percent of the insurers report academicians on their boards, the highest percentage of any group responding.

We hope you will find these as well as the detailed results outlined in this special supplement meaningful and useful to your board. We welcome your suggestions on how we might enhance next year's study.

Lester B. Korn

Richard M. Ferry

February 1983

SUMMARY OF FINDINGS

On a question-by-question basis, the following findings are directly related to the insurance industry respondents. (Table 1) Where appropriate, comparisons are made with all other responding corporations in our study.*

1. Size of Board (Table 2)

As they did last year, the boards of directors of the responding insurance companies average 16 members. This is three more than the average for all respondents; only financial institutions have larger boards, averaging 19.

2. Inside Director vs. Outside Director (Table 2)

Insurance companies average four inside directors – the same as all respondents. They average 12 outside directors – three more than the nine averaged by all respondents to the study.

The preference of insurance companies for outside director dominance on their boards continues to be strong as it is with all participants. Eighty percent prefer that the majority of their directors be drawn from outside the company and 46 percent prefer that a minimum of three-quarters of their directors come from outside (compared to 34% of all respondents).

3. Board Composition (Table 3)

Like the majority of corporations, the insurance companies select outside directors with strong managerial experience. The largest sources for outside directors of insurance boards continue to be senior executives of other companies (on 86% of their boards), retired executives of other companies (on 70%) and academicians (on 66%). The percentage of academicians is, in fact, the highest of any responding group in the survey. Moreover, insurers exceed the total respondent average in the percentage of attorneys who do not provide legal representation (39% vs. 34%), women (54% vs. 41%) and ethnic minorities (29% vs. 23%). (Table 3A)

*611 corporations responded to our Tenth Annual Study. Industrial companies account for 74 percent of the total of which 219 have sales over $1 billion. Banks and financial institutions account for 12 percent, insurance companies for nine percent and retailers for five percent.

Women and minority members of insurance boards generally are from functions where they have gained management experience. Women are primarily senior executives of other companies (30%), academicians (27%) and former government officials (13%). Likewise, minority directors are frequently senior executives of other companies (33%) and academicians (20%). (Table 3B) Insurance companies report the smallest percentage of attorneys who provide legal services (21% vs. 28% for all respondents).

4. Is the Chairman also the CEO?
Is the CEO also the COO?

Seventy-nine percent of the insurance respondents report that their chairman is also their chief executive officer -- up from 72 percent last year and identical to the percentage for all respondents. Forty-six percent state that their chief executive officer is also their chief operating officer. This is down from 53 percent last year, but still ahead of the 40 percent for all participants.

5. Committees (Table 4)

Of all respondents, insurance companies continue to make the greatest use of the executive and finance committees. Ninety-one percent have a standing executive committee compared to 78 percent for all respondents; 61 percent have a finance committee – considerably more than the 36 percent overall average. At 16 percent, they also have one of the highest percentages of corporate ethics committees, double the eight percent for all respondents.

Forty-six percent report a nominating committee this year, compared to the 57 percent reported by all participants. (Table 4A) Along with the compensation and executive committees, the nominating committee continues to play an important role in the management succession process. And, insurers make more use of the nominating committee in board committee appointments than any other responding group (65% vs. 58%).

Again this year, the finance committee is the largest, averaging seven directors. It also has the most inside directors – three. The audit and compensation committees are composed entirely of outside directors. All committees average four outside directors except the benefits which averages three. (Table 4B) Board committee appointments are reviewed annually by 96 percent of the insurance respondents. The finance committee is not only the largest, it also meets most frequently. This year it averages nine meetings, down one from last year. (Table 4C) Forty-three percent of the insurance respondents feel that the amount of time directors devote to committees is increasing while none thought it was decreasing.

6. Compensation (Table 5)

Ninety-three percent of the insurance company respondents compensate their outside directors on an annual and per meeting fee basis, the largest percentage of all responding companies to use this method for the third consecutive year. Only two insurance companies pay an annual fee only and, this year, none reported paying a per meeting fee only.

– Annual and Per Meeting Fee (93% of the respondents)

The average total yearly compensation for outside directors of insurance companies using this method rose slightly this year to $13,950 from $13,140 last year. It still lags significantly below the $16,990 average for all respondents. The components of this total compensation include a $9,900 average annual fee and a $613 per meeting fee. (Table 5A)

The "upper quartile average," included for comparative purposes, is also up somewhat this year to $22,920 from $22,640 last year. But, it is also considerably below the $26,500 average for all respondents. (Table 5B)

– Annual Fee Only (4% of the respondents)

The two companies that fall in this category pay an average annual fee of $6,000. This is the same as last year and is the lowest annual amount of any of the respondents using this method of compensation.

7. Committee Compensation

Eighty-nine percent of the responding insurance companies compensate their outside directors additionally for serving on a committee. Of these, 68 percent pay a per meeting fee only. Twenty-six percent pay an annual plus per meeting fee and six percent pay an annual fee only for committee service.

Among those that pay a per meeting fee only, fees for committee members range from an average of $300 per meeting for the benefits committee up to $530 for the public affairs committee. Members of the executive committee earn the highest compensation among those that pay an annual plus per meeting fee, averaging $4,250 per year. Committee chairmen are generally compensated at a higher rate than committee members. Sixty-three percent of the insurance company respondents annually review board committee fees.

8. Additional Compensation Information (Table 6)

Board members are compensated even though they do not attend board meetings by 89 percent of the insurance respondents. However, almost all (92%) limit that compensation to the annual fee only.

Thirty-nine percent of the insurance company respondents increased compensation for their board members during the past 12 months. This is significantly below the 53 percent that reported raising board fees in last year's study. The amount of the increase is also considerably lower – $2,750 vs. $4,170 last year. Thirty percent contemplate raising board fees during the next 12 months, projecting an even lower annual increase of $1,630. Ninety-one percent believe that their outside directors are adequately compensated.

The highest paid outside insurance company director received, exclusive of consulting fees, $21,420 – a modest seven percent increase over the $20,040 reported last year. While this is slightly below the $21,720 averaged by all respondents, the upper quartile average for insurance companies, at $39,460, is considerably higher than the $36,550 overall average. Once again, as it was last year, it is exceeded only by industrials with sales over $3 billion. (Table 6) Eighteen percent of the insurance respondents have directors who also receive consulting fees.

As they did last year, insurance companies lead all other respondents in offering a compensation plan that allows outside directors to defer board fees until retirement. Seventy percent now offer such a plan, up from 63 percent last year. Insurers also are among the leaders in offering retirement plans with 20 percent doing so. Other benefits commonly included in their compensation plans include travel expense reimbursement (86%), directors liability insurance (75%), matching educational gifts programs (50%) and accident insurance (43%). Forty-five percent invite the spouses of outside directors to attend special board functions. And 32 percent cover travel expenses for the spouses, a high for the study.

9. Board Practices and Policies (Table 7)

The boards of insurance companies for the sixth consecutive year meet an average of seven times per year, one less than the average for all respondents. Thirty-nine percent hold at least one of these meetings away from their headquarters office or a major facility city and five percent hold at least one outside the country during the year.

Over the past few years, the number of hours insurance directors spend on board business has been steadily decreasing. This year they reported an average of 107 hours – down a substantial 16 hours from last year and down 23 hours from two years ago. This is also considerably below the 123 hours averaged by all respondents. (Table 7A) But, in spite of the fact they they work fewer hours, their hourly rate of $130 is below the average for all participants of $138 because their overall compensation is so much lower.

Thirty-nine percent of the insurance respondents had an outside director resign from the board during the past year, primarily due to retirement according to 64 percent. Sixteen percent added new inside directors and 46 percent added new outside directors. They continue to identify and select new outside directors predominantly by the traditional and informal means of recommendation by the chairman and/or other board members. Use of the formal nominating committee, however, continues to be strong, cited by 52 percent. (Table 7B)

When asked to select the primary considerations in asking outside directors to sit on their boards, insurers overwhelmingly stated corporate experience (82%). Specific related experience and functional experience were next, cited by 38 percent each. Prestige was cited by 13 percent of the insurance respondents. (Table 7C)

Prospective directors declined an invitation to serve on the boards of 21 percent of the insurers. (Table 7D) Most (75%) cited the time commitment involved as the major reason.

Fifty percent of the insurance respondents expect a board vacancy during 1983 – more than any other group responding to the survery.

Ninety-six percent permit their chief executive officer to sit on outside public corporate boards and 93 percent allow other senior executives to do so.

Mandatory retirement policies are in effect at 86 percent of the insurance company respondents. The average retirement age is 68 for inside directors and 70 for outside directors.

10. Issues (Table 8)

Not surprisingly, financial results is the most important issue facing insurance boards. When asked to rank various issues in order of their importance, 96 percent ranked financial results first, second or third. Other important issues include strategic planning (cited 1st, 2nd or 3rd by 69%) followed by day-to-day operations (55%) and managerial succession (34%). The major changes foreseen by these companies over the next five years are the increasing importance of strategic planning and managerial succession and the decreasing importance of day-to-day operations. Mirroring their concern with financial results, the greatest amount of board meeting time (39%) is devoted to this issue.

TABLE 1 – PARTICIPATING COMPANIES

Fifty-six of America's major insurance companies participated in our Tenth Annual Study.

Size (Assets)	No. of Companies	%
Under $2 billion	14	25.0%
$2 billion and over	42	75.0%
TOTAL	56	100.0%

Stock Exchange	No. of Companies	%
New York Stock Exchange	17	30.4%
American Stock Exchange	2	3.6%
Over-the-Counter	13	23.2%
Mutual	19	33.9%
Private	5	8.9%
TOTAL	56	100.0%

TABLE 2 – PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Under $2 billion	5	8	13
$2 billion and over	4	13	17
Average	4	12	16

TABLE 3—BOARD COMPOSITION

3A. Are one or more of the following individuals on the board?

	1978 Insurance Companies	1982 Insurance Companies	1982 All Companies Surveyed
Senior Executive (other companies)	86.7%	85.7%	88.2%
Retired or Previously Employed Corporate Officer	64.4%	53.6%	46.8%
Commercial Banker	60.0%	57.1%	33.6%
Attorney (provides legal services to the company)	24.4%	21.4%	28.2%
Academician	55.6%	66.1%	50.4%
Investment Banker	17.8%	17.9%	23.7%
Major Shareholder (not officer of the company)	20.0%	19.6%	30.4%
Attorney (does not provide legal services to the company)	51.1%	39.3%	33.7%
Former Government Official	22.2%	32.1%	27.2%
Female	46.7%	53.6%	41.2%
Ethnic Minority Representative	26.7%	28.6%	23.2%
Non-U.S. Citizen	13.3%	10.7%	17.0%
International Executive (American)	11.1%	8.9%	7.5%
"Professional" Director	N/A	17.9%	19.5%
Retired Executive (other companies)	N/A	69.6%	66.3%

FIVE YEAR TREND

3B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Sr. Executives (other companies)	30.0%	33.3%
Academicians	26.7%	20.0%
Former Government Officials	13.3%	6.7%
Attorneys (do not provide legal services)	10.0%	26.7%

TABLE 4—COMMITTEES

4A. Which of the following standing committees does the board have?

Committee	1982 Insurance Companies	1982 All Companies Surveyed
Audit	98.2%	98.2%
Executive	91.1%	78.4%
Compensation	78.6%	86.3%
Finance	60.7%	35.7%
Nominating	46.4%	56.6%
Public Affairs	16.1%	11.8%
Corporate Ethics	16.1%	8.0%
Benefits	17.9%	32.9%

4B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	4	4
Executive	2	4	6
Compensation	0	4	4
Finance	3	4	7
Public Affairs	1	4	5
Nominating	1	4	5
Corporate Ethics	1	4	5
Benefits	1	3	4

4C. How many committee meetings were held during the past twelve months?

Committee	Average Number of Meetings
Audit	3
Executive	6
Compensation	4
Finance	9
Public Affairs	4
Nominating	2
Corporate Ethics	3
Benefits	2

TABLE 5—COMPENSATION

5A. Annual and Per Meeting Fee (92.9% of the Respondents)

Annual Fee Amount	%
Under $3,000	1.9%
$3,000-$6,999	30.8%
$7,000-$10,999	32.7%
$11,000-$13,999	9.6%
$14,000 and over	25.0%
TOTAL	100.0%
	(52)
Average Annual Fee	$9,900

PLUS

Amount Per Meeting	%
Under $250	5.8%
$250-$449	17.3%
$450-$599	36.5%
$600-$799	26.9%
$800 and over	13.5%
TOTAL	100.0%
	(52)
Average Per Meeting Fee	$613

EQUALS

Total Annual Compensation	%
Under $5,000	1.9%
$5,000-$6,999	7.7%
$7,000-$10,999	23.1%
$11,000-$13,999	25.0%
$14,000-$16,999	9.6%
$17,000 and over	32.7%
TOTAL	100.0%
Average Total Annual Compensation	$13,950

5B. Annual and Per Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Insurance Companies	$13,950	$22,920
Banks & Financial Institutions	$15,310	$24,650
Retailers	$16,950	$25,410
Industrials		
Under $200 million	$ 8,720	$13,000
$200 million-$399 million	$11,900	$16,800
$400 million-$599 million	$14,580	$24,800
$600 million-$999 million	$15,430	$22,300
$1 billion-$2.999 billion	$18,300	$25,300
$3 billion-$4.999 billion	$26,720	$30,620
$5 billion and over	$24,960	$34,610
Average	$16,990	$26,500

TABLE 6—ADDITIONAL COMPENSATION INFORMATION

How much did the highest paid director receive in 1982 for all board services exclusive of any consulting arrangement?

Amount	%
Under $7,000	5.4%
$7,000-$10,999	10.7%
$11,000-$16,999	25.0%
$17,000-$24,999	23.2%
$25,000 and over	28.5%
Unspecified	7.2%
TOTAL	100.0%
	(56)
Average	$21,420

Type and Size of Company	Average Compensation	Upper Quartile Average
Insurance Companies	$21,420	$39.460
Banks & Financial Institutions	$20,700	$34,070
Retailers	$18,980	$27,500
Industrials		
Under $200 million	$11,120	$20,300
$200 million-$399 million	$16,940	$27,270
$400 million-$599 million	$15,750	$23,380
$600 million-$999 million	$17,460	$25,000
$1 billion-$2.999 billion	$24,090	$36,160
$3 billion-$4.999 billion	$30,580	$42,500
$5 billion and over	$36,200	$49,100
Average	$21,720	$36,550

TABLE 7—BOARD PRACTICES AND POLICIES

7A. How many hours (estimated) do directors spend annually on board matters, including review, preparation, meetings, and travel?

Number of Hours	%
Under 40	7.1%
41 to 70	25.0%
71 to 130	35.7%
131 to 190	17.9%
191 to 250	7.1%
251 and over	3.6%
No Response	3.6%
TOTAL	100.0%
	(56)
Average	107 hours

Type and Size of Company	Number of Hours	Upper Quartile Average
Insurance Companies	107	186
Banks & Financial Institutions	114	174
Retailers	93	147
Industrials		
Under $200 million	85	138
$200 million-$399 million	109	169
$400 million-$599 million	107	162
$600 million-$999 million	112	187
$1 billion-$2.999 billion	145	198
$3 billion-$4.999 billion	152	217
$5 billion and over	176	226
Average	123	189

7B. How are outside directors located for the board?

	%
Recommendation and known to board members	80.4%
Recommendation and known to chairman	73.2%
Selection or nominating committee	51.8%
Recommendation and known to other corporate officers	35.7%
Referral from executive acquaintances	12.1%
Executive search	7.1%

7C. What are the primary considerations in asking a prospective director to sit on the board?

	%
Corporate Experience	82.1%
Specified Related Experience	37.5%
Functional Experience	37.5%
Prestige	12.5%

7D. Have any prospective directors declined an invitation to serve on the board during the past year?

	%
Yes	21.4%
No	75.0%
No Response	3.6%
TOTAL	100.0%
	(56)

TABLE 8—ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	60.4%	87.5%	95.8%
Strategic planning	10.4%	45.8%	68.7%
Day-to-day operations	19.1%	36.1%	55.2%
Managerial succession	12.8%	19.2%	34.1%
Mergers/Acquisitions	—	6.8%	20.4%
Government relations	—	4.5%	13.6%
Shareholder relations	2.4%	4.8%	11.9%
Corporate ethics	—	2.1%	10.6%
Public relations	—	—	6.7%

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BOARD OF DIRECTORS ANNUAL STUDY

For the past ten years, Korn/Ferry International has surveyed the board practices and policies of 1,000 of America's largest industrial and service corporations. Again this year, we invited 100 of the the largest financial institutions plus selected smaller ones to participate in our nationwide study and we are gratified that 76 – a record for the study – responded. Of these, 65 have assets over $2 billion.

We believe it is beneficial for directors of banks and financial institutions to be able to compare and evaluate their board practices with others in their industry. We have, therefore, once again isolated the responses of these institutions in this special supplement to our Tenth Annual Study.

Banks and financial institutions continue to have the largest boards, averaging 19. They also continue to have the strongest preference for outside director dominance. Averaging four inside and 15 outside directors, 67 percent prefer at least a three-quarter outside director majority on their boards.

Financial companies have a definite preference for outside directors with business experience. Senior executives of other companies are represented on 96 percent of their boards, the highest percentage of any of the groups participating in this study. And, in response to a new question, 87 percent cite corporate experience as the primary consideration in asking a prospective director to sit on their boards – again higher than any other group of respondents.

Financial institutions once again lead the corporate community in appointing women and ethnic minorities to their board. And, reflecting the increasing importance of worldwide operations, they have the highest percentage of American international executives on their boards.

Although financial institutions have historically paid their directors less than the overall average, they have been consistently closing the gap over the past few years. Forty-three percent increased compensation this past year an aver-

age of $4,410, 39 percent more than the average increase of $3,170 for all respondents. If paid on an annual plus per meeting fee basis, as most are, the financial company directors now average $15,310 per year compared to $16,990 for all respondents.

We believe these highlights as well as the detailed results included in this supplement will be meaningful and useful to the boards of banks and financial institutions. We welcome your suggestions on how we might enhance next year's study.

Lester B. Korn

Richard M. Ferry

February 1983

SUMMARY OF FINDINGS

On a question-by-question basis, the following findings directly relate to bank and financial institution respondents. (Table 1) Where appropriate, key comparisons are made with all the participants in our study.*

1. Size of Board (Table 2)

Banks and financial institutions continue to have the largest boards of any of the groups responding to this survey. As they did last year, they average 19 outside directors. This is six more than all respondents and four more than the largest industrials ($5 billion and over).

2. Inside Directors vs. Outside Directors (Table 2)

Banks and financial institutions also have the strongest preference for outside director dominance of any of the responding groups. Averaging four inside directors and 15 outside directors, 88 percent stated a preference for a majority of outside directors (compared to 80% for all respondents). And 67 percent prefer that a minimum of three-quarters of their board be comprised of outside directors – considerably more than the 34 percent of all respondents stating this preference.

3. Board Composition (Table 3)

Senior executives of other companies are the largest source of outside directors for financial institutions. They are represented on 96 percent of these boards, more than the 88 percent for all respondents and, in fact, the largest percentage of any group responding to the survey. With retired executives of other companies comprising the second largest source, financial companies seem to place heavy emphasis on business experience in selecting outside directors. (Table 3A) Corroborating this, 87 percent cite corporate experience as the primary consideration for asking a prospective director to sit on their boards – again higher than any other group of respondents.

Financial institutions continue to have the highest percentage of women and ethnic minorities on their boards. This year, women sit on 66 percent of these boards compared to 41 percent for all respondents. Again, they are drawn

*611 corporations responded to our Tenth Annual Study. Industrial corporations account for 74 percent of the total of which 219 have sales in excess of $1 billion. Banks and financial institutions account for 12 percent, insurance companies for nine percent and retailers for five percent.

from sources where they have gained substantial management experience. Twenty-two percent are from academia, 18 percent are senior executives of other companies, and 12 percent are former government officials. Ethnic minorities, now on 43 percent of the financial boards (compared to 23% for all respondents), likewise have administrative experience. Forty-nine percent are senior executives of other companies and 18 percent are academicians. (Table 3B)

Banks and financial institutions also have the largest percentage of American international executives on their boards – 12 percent compared to eight percent for all respondents. Not unexpected in the current competititve climate, financial companies have the smallest percentage of investment bankers. Only three percent report investment bankers on their boards, well below the 24 percent for all respondents and down from the nine percent reported last year.

4. Is the Chairman also the CEO?
Is the CEO also the COO?

Banks and financial institutions report the highest percentage of chairmen who are also their chief executive officers, and, at the same time, the lowest percentage of chief executive officers who are the chief operating officers. Eighty-eight percent state that their chairman is their CEO (compared to 79% of all respondents) while only 32 percent state that the CEO is also the COO (compared to 40% of all respondents).

5. Committees (Table 4)

For the sixth consecutive year, the audit (97%), the compensation (86%)and the executive (84%) committees are the most prevalent among financial institutions. Only 21 percent, however, report having a finance committee – the smallest percentage of all responding groups. The nominating committee, reported by 59 percent, is up from 44 percent five years ago. (Table 4A) Along with the compensation and executive committees, the nominating committee plays an important role in the management succession process as well as participates in board committee appointments.

Once again, the executive committee is the largest, averaging eight members. The audit, compensation and benefits committees are each composed entirely of outside directors while the executive committee has the most inside directors – three. (Table 4B) Ninety-five percent of the financial respondents annually review committee appointments.

The executive committee meets most frequently – averaging seven meetings per year. The nominating committee has the fewest meetings – averaging only two per year. (Table 4C)

6. Compensation (Table 5)

Eighty-four percent of the bank and financial institution respondents pay their outside directors an annual plus per meeting fee– up from 78 percent last year. Eight percent pay an annual fee only and eight percent pay a per meeting fee only.

– Annual and Per Meeting Fee (84% of the respondents)

The average total annual compensation for outside directors of financial companies using this method of payment, while still below the $16,990 reported by all respondents, went up 10 percent from $13,880 last year to $15,310. This is 56 percent more than directors of financial companies earned just five years ago. The components consist of an average annual fee of $9,900 and an average per meeting fee of $619.

For comparative purposes, the "upper quartile averages" have been included in this section. Up nine percent from last year, this average is $24,650 for financial institutions, vs. $26,500 for all respondents. (Table 5)

– Annual Fee Only (8% of the respondents)

Among the companies that use this method of compensation, the average annual fee is $14,600– down from last year's average of $16,310. It is also below the $16,100 average for all respondents.

– Per Meeting Fee Only (8% of the respondents)

Financial companies continue to use this method of compensation more than all other respondents to the survey, although the percentage is down from last year's 12 percent. This year, the average per meeting fee is $530, an eight percent increase over last year's average of $490.

7. Committee Compensation

Ninety-one percent of the banks and financial institutions compensate their outside directors for serving on committees. Of these, 80 percent pay a per meeting fee only a significant increase from the 52 percent using this method of compensation last year. Fourteen percent pay an annual plus per meeting fee– down from 42 percent last year– and six percent pay an annual fee only.

Among the 80 percent that pay a per meeting fee only, fees for committee members range from a low of $370 per meeting for the public affairs committee to a high of $480 for the executive committee. This range is somewhat more than the $280 to $420 per meeting range of last year. Committee chairmen generally are compensated at a higher rate than committee members.

Seventy-six percent of the banks and financial institutions annually review committee fees.

8. Additional Compensation Information (Table 6)

Seventy-eight percent of the financial respondents compensate their outside directors even though they do not attend board meetings, the same as last year. Most (93%), however, limit that compensation to the annual fee only.

The highest paid outside director of a bank or financial institution averages $20,700 per year for board services, exclusive of consulting fees– an increase of 13 percent from last year's $18,400. This is only five percent less than the highest paid outside director among all respondents; last year the financial companies trailed all respondents by 12 percent. The gap between the upper quartile averages of financial respondents and all respondents is also closing. Last year the difference between the two was 23 percent; this year's difference is only seven percent ($34,070 for financial companies vs. $36,550 for all respondents). (Table 6) Sixteen percent also pay outside directors additional consulting fees.

Ninety-seven percent of the banks and financial institutions have a procedure whereby directors annually review and establish appropriate compensation for the chief executive officer. This is up from 91 percent last year and is the highest percentage of all respondents. Ninety-five percent have the same procedure for other senior officers– also the highest of all respondents.

Forty-three percent of the financial respondents increased compensation an average of $4,410 for their board members over the past 12 months. This is a sizable 39 percent more than the average increase of $3,170 for all respondents. However, for the next 12 months, 25 percent contemplate raising board fees, projecting a reduced average increase of $1,480. Ninety percent believe that their outside directors are adequately compensated.

Over the past couple of years, a steadily increasing percentage of financial respondents has established plans that allow outside directors to defer their board fees until retirement. This year, 63 percent offer such a plan– up from 51 percent last year and up from 37 percent two years ago. Another seven percent state that they are considering establishing one. Other benefits commonly offered include travel expense reimbursement (reported by 83%), directors liability insurance (76%), accident insurance (33%) and matching educational gifts programs (32%). Seventeen percent have a program that provides retirement benefits for outside directors.

9. Board Practices and Policies (Table 7)

The boards of the financial respondents averaged nine meetings during the past year– one fewer than reported in last year's survey. This is still, however, more than all respondents who average eight. Forty percent of the financial companies held at least one board meeting outside of their headquarters office or a major facility city during the year but only seven percent held one of these meetings outside the country.

The outside directors of these respondents averaged 114 hours annually on board-related matters. This is not only lower than the 123 hours averaged by all respondents, it is also down eight hours from last year. The upper quartile average, included for comparative purposes, is 174 hours. (Table 7A) Due to the reduced number of hours, outside directors of financial institutions earn $134 per hour, up 18 percent from last year's hourly rate of $114 and very near the $138 averaged by all respondents.

Fifty-one percent of the banks and financial institutions had an outside director resign during the past year – predominantly due to retirement. But 23 percent, more than any other group in the study, had an outside director resign because of conflicts of interest. Sixty-six percent added new outside directors and 29 percent added new inside directors to their boards. They continue to use the traditional and informal methods for identifying and selecting new directors of recommendation by the chairman and by other board members. Use of the formal nominating committee is now reported by 63 percent compared to 52 percent of all respondents. (Table 7B)

Prospective directors declined an invitation to serve on the boards of 18 percent of the financial respondents. The prime reason given was the time commitment involved (cited by 50%) followed by conflict of interest (29%). (Table 7C) Forty-six percent of these respondents expect a board vacancy in 1983.

Ninety percent permit their CEO to serve on outside public corporate boards, while only 32 percent permit their COO to do so. Ninety-two percent allow other key executives to serve on outside boards, but 16 percent limit the number of executives who are permitted to do so.

Ninety-five percent have a mandatory retirement age: 67 for their inside directors and 69 for their outside directors.

Thirty-eight percent of the financial respondents require all their directors to sign the Annual Report Form 10-K instead of the simple majority required by the Securities and Exchange Commission. This is considerably below the 57 percent of all respondents.

10. Issues (Table 8)

Financial results is clearly the most important issue facing boards of banks and financial institutions. It is ranked one, two or three by 99 percent of them. The second most important issue is strategic planning (ranked one, two or three by 69%) followed by day-to-day operations (42%), mergers and acquisitions (33%) and managerial succession (28%). When asked to rank the importance of these issues five years from now, the major differences are the increasing importance of strategic planning (ranked one, two or three by 77%) coupled with the decreasing importance of day-to-day operations (30%). Mirroring the concern with financial results, the greatest percentage of board meeting time (33%) is devoted to this issue followed by day-to-day operations (20%).

TABLE 1 – PARTICIPATING COMPANIES

Seventy-six of America's major banks and financial institutions participated in our Tenth Annual Study.

Size (Assets)	No. of Finan. Inst.	%
Under $2 billion	11	14.5%
$2 billion and over	65	85.5%
TOTAL	76	100.0%

Stock Exchange	No. of Finan. Inst.	%
New York Stock Exchange	38	50.0%
American Stock Exchange	1	1.3%
Over-the-Counter	26	34.2%
Other	11	14.5%
TOTAL	76	100.0%

TABLE 2 – PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Size of Finan. Inst.	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Under $2 billion	2	14	16
$2 billion and over	5	15	20
Average	4	15	19

TABLE 3–BOARD COMPOSITION

3A. Are one or more of the following individuals on the board?

	1978 Financial Institutions	1982 Financial Institutions	1982 All Companies Surveyed
Senior Executive (other companies)	94.2%	96.1%	88.2%
Retired or Previously Employed Corporate Officer	50.0%	47.4%	46.8%
Commercial Banker	17.3%	17.1%	33.6%
Attorney (provides legal services to the company)	44.2%	35.5%	28.2%
Academician	59.6%	57.9%	50.4%
Investment Banker	13.5%	2.6%	23.7%
Major Shareholder (not officer of the company)	23.1%	18.4%	30.4%
Attorney (does not provide legal services to the company)	36.5%	38.2%	33.7%
Former Government Official	32.7%	32.9%	27.2%
Female	63.5%	65.8%	41.2%
Ethnic Minority Representative	36.5%	43.3%	23.2%
Non-U.S. Citizen	15.4%	19.7%	17.0%
International Executive (American)	15.4%	11.8%	7.5%
"Professional" Director	N/A	15.8%	19.5%
Retired Executive (other companies)	N/A	61.8%	66.3%

FIVE YEAR TREND

3B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	22.0%	18.2%
Sr. Executives (other companies)	18.0%	48.5%
Former Government Officials	12.0%	9.1%
Attorneys (do not provide legal services)	8.0%	12.1%

TABLE 4—COMMITTEES

4A. Which of the following standing committees does the board have?

Committee	Financial Institutions	All Companies Surveyed
Audit	97.4%	98.2%
Executive	84.2%	78.4%
Compensation	85.5%	86.3%
Finance	21.1%	35.7%
Nominating	59.2%	56.6%
Public Affairs	25.0%	11.8%
Corporate Ethics	6.6%	8.0%
Benefits	31.6%	32.9%

4B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	5	5
Executive	3	5	8
Compensation	0	5	5
Finance	2	4	6
Public Affairs	2	5	7
Nominating	1	5	6
Corporate Ethics	1	5	6
Benefits	0	5	5

4C. How many committee meetings were held during the past twelve months?

Committee	1981 Average Number of Meetings	1982 Average Number of Meetings
Audit	5	4
Executive	6	7
Compensation	5	4
Finance	6	4
Public Affairs	4	3
Nominating	3	2
Corporate Ethics	5	4
Benefits	4	3

TABLE 5—COMPENSATION

Annual and Per Meeting Fee (84.2% of Respondents)

Annual Fee Amount	%
Under $3,000	4.7%
$3,000-$4,999	7.8%
$5,000-$6,999	17.2%
$7,000-$10,999	40.6%
$11,000-$13,999	17.2%
$14,000 and over	10.9%
Unspecified	1.6%
TOTAL	100.0%
	(64)
Average Annual Fee	$9,900

PLUS

Amount Per Meeting	%
Under $250	3.1%
$250-$449	26.6%
$450-$599	29.7%
$600-$799	26.6%
$800 and over	12.4%
Unspecified	1.6%
TOTAL	100.0%
	(64)
Average Per Meeting Fee	$619

EQUALS

Total Annual Compensation	%
Under $5,000	6.3%
$5,000-$6,999	3.1%
$7,000-$10,999	14.1%
$11,000-$13,999	23.4%
$14,000-$16,999	15.6%
$17,000-$19,999	15.6%
$20,000 and over	21.9%
TOTAL	100.0%
	(64)
Average	$15,310

Annual and Per Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Banks & Financial Institutions	$15,310	$24,650
Insurance Companies	$13,950	$22,920
Retailers	$16,950	$25,410
Industrials		
Under $200 million	$ 8,720	$13,000
$200 million-$399 million	$11,900	$16,800
$400 million-$599 million	$14,580	$24,800
$600 million-$999 million	$15,430	$22,300
$1 billion-$2.999 billion	$18,300	$25,300
$3 billion-$4.999 billion	$26,760	$30,620
$5 billion and over	$24,960	$34,610
Average	$16,990	$26,500

TABLE 6—ADDITIONAL COMPENSATION INFORMATION

How much did the highest paid director receive in 1982 for all board services exclusive of any consulting arrangement?

Amount	%
Under $5,000	1.3%
$5,000-$10,999	9.2%
$11,000-$16,999	30.3%
$17,000-$24,999	30.3%
$25,000 and over	23.7%
Unspecified	5.2%
TOTAL	100.0%
	(76)
Average	$20,700

Highest paid director

Type and Size of Company	Average Compensation	Upper Quartile Average
Banks & Financial Institutions	$20,700	$34,070
Insurance Companies	$21,420	$39,460
Retailers	$18,980	$27,500
Industrials		
Under $200 million	$11,120	$20,300
$200 million-$399 million	$16,940	$27,270
$400 million-$599 million	$15,750	$23,380
$600 million-$999 million	$17,460	$25,000
$1 billion-$2.999 billion	$24,090	$36,160
$3 billion-$4.999 billion	$30,580	$42,500
$5 billion and over	$36,200	$49,100
Average	$21,720	$36,550

TABLE 7–BOARD PRACTICES AND POLICIES

7A. How many hours (estimated) do directors spend annually on board matters, including review and preparation time, meeting attendance and travel?

Number of Hours	%
Under 40	6.5%
41 to 70	23.7%
71 to 100	22.4%
101 to 160	18.4%
161 and over	22.3%
No Response	6.7%
TOTAL	100.0%
	(76)
Average	114 hours

Hours

Type and Size of Company	Number of Hours	Upper Quartile Average
Banks & Financial Institutions	114	174
Insurance Companies	107	186
Retailers	93	147
Industrials		
Under $200 million	85	138
$200 million-$399 million	109	169
$400 million-$599 million	107	162
$600 million-$999 million	112	187
$1 billion-$2.999 billion	145	198
$3 billion-$4.999 billion	152	217
$5 billion and over	176	226
Average	123	189

7B. How are outside directors located for the board?

	%
Recommendation and known to board members	81.6%
Recommendation and known to chairman	78.9%
Selection or nominating committee	63.2%
Recommendation and known to other corporate officers	51.3%
Referral from executive acquaintances	7.9%

7C. Have any prospective directors declined an invitation to serve on the board during the past year?

	%
Yes	18.4%
No	81.6%
TOTAL	100.0%
	(76)

If yes, what is the predominant reason? (18.4%)

	%
Time Commitment	50.0%
Conflict of Interest	28.6%
Other	21.4%
TOTAL	100.0%
	(14)

TABLE 8—ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	70.6%	89.7%	98.5%
Strategic planning	11.9%	40.3%	68.7%
Day-to-day operations	10.6%	30.3%	42.4%
Mergers/Acquisitions	3.0%	16.4%	32.8%
Managerial succession	7.5%	10.5%	28.4%
Multinational issues	—	6.2%	13.9%
Public relations	—	4.5%	9.0%
Shareholder relations	—	4.6%	6.1%
Government relations	—	3.0%	6.0%
Corporate ethics	—	3.0%	3.0%

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